



# TIME TO TAP NEW AFTER-SALES REVENUE STREAMS

The after-sales business remains a reliable and significant profit center for automakers, even as increased service intervals and intensifying competition have caused challenges. Additionally, the future of the sector looks promising because new telematics technology could provide automakers and dealers with a powerful tool that can help them improve the ownership experience. At the same time, the new technology gives them the potential to win back the market share that they have been losing for years. But to capitalize on this trend, they must develop an infrastructure to connect with consumers.

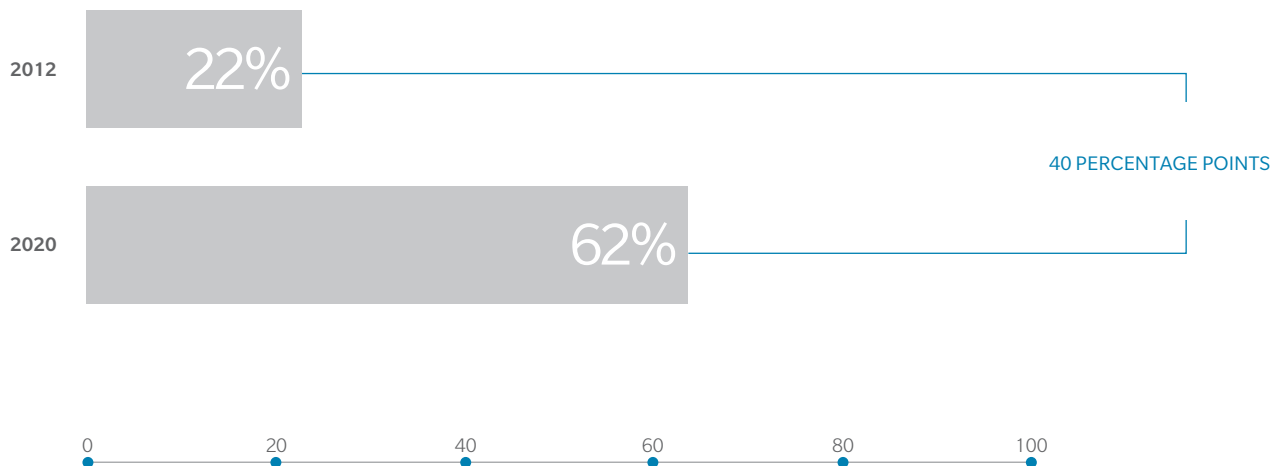
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## GLOBAL GROWTH RATE FOR EMBEDDED TELEMATICS

Light vehicle sales with built-in telematics is forecast to increase by 40 percentage points by 2020



Source: SBD Research

After-sales business (including parts and service) is a €500 billion global market that accounts for nearly half the profit at some automakers. For dealerships, it can provide 40 percent of profit, although parts and service only account for 10 percent of revenue. Competition with independent aftermarket providers is intense, especially once the warranty period has expired, forcing automakers and dealers to fight for every point of market share. It is a battle that many automakers and dealers have been losing, but the arrival of new technology could reverse this trend.

The increased use of embedded modems in vehicles gives automakers newfound visibility into how their vehicles are performing in the field, when they need regular maintenance or repairs, and what may need to be replaced or serviced. More than 20 percent of new vehicles are sold with embedded modems, and that figure is expected to grow to between 60 percent and 75 percent by the end of the decade.

### DATA PROVIDES THE OPPORTUNITY

The automotive after-sales market faces many headwinds. As vehicle technology and quality improves and active safety systems become more common, maintenance intervals increase and accident rates decline. As a result, the size of the market for service and repairs shrinks. However, after-sales will continue to provide automakers and dealers with a huge opportunity for a long time, if they are willing to invest in new ways to tap this lucrative revenue stream.

With the growth of electronics and sensors in vehicles, nearly every major vehicle system has internal monitoring, which can be communicated back to the modem and, with the authorization from customers, read by automakers to help them improve user experience. Surveys have shown that if data is used to make the customer's experience better, most car buyers would be willing to share the information. As this data becomes more prevalent and accessible to automakers, they will be able to communicate directly with consumers via their vehicles to advise them when maintenance should be performed and recommend the nearest dealerships. For example, an algorithm based on input from the accelerometers could determine when brake pads need to be replaced. This could take place before the brake pad indicator bars begin to make noise. The customer would get a notification on the infotainment screen with a recommendation to make an appointment at a nearby dealership. Customers can still choose to take their vehicles to an independent repair shop, but pilot implementations of such services, such as BMW's TeleServices, show that these programs make it more likely that owners will return to the dealership vs. an independent rival.

### EMBEDDED VS. SMARTPHONE ACCESS

Automakers have been divided on the best methods for incorporating telematics into the car, with some preferring to use the owner's smartphone to bring the cloud onboard, while others prefer to use a dedicated embedded modem. There are pros and cons associated with each approach. For instance, a benefit



of using a smartphone as the car's telematics channel is that the automaker has a smaller investment because the solution primarily requires software. But the trend is toward offering embedded modems, which are more robust and reliable, because they provide added value that most customers feel is worth the investment. The embedded modem provides customers connectivity even without their smartphones or if their smartphone connection is lost. This can offer an important safety benefit. Also, the embedded modem makes it possible to offer software updates and improvements to the vehicle and/or its infotainment system without having to take the vehicle to the dealership. Automakers also benefit because the data can be used to communicate with customers to improve vehicle maintenance, which helps improve resale value and bring more people into dealerships, thereby increasing sales of original parts.

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## ANOTHER RIVAL TO CONSIDER

As automakers seek to gain from this opportunity, they also will have to move fast to guard against the rise of new rivals, such as startups offering under-the-dashboard dongles that can plug into a car's electronics through the OBD-II data port. Once connected, the car can communicate data wirelessly to a smartphone or computer, turning any car into a connected car, albeit with limited capabilities. Automakers are mounting an offensive because these dongles threaten their control over connectivity services, which are increasingly defining today's vehicles. Mercedes-Benz has been testing its own device in Europe. The solution offers perks such as the ability to remotely check the fuel level of a car or find a lost vehicle. This is especially useful for older vehicles, which lack the built-in capabilities of modern connected cars.

The bottom line is that automakers and dealers that move into this area have the potential to boost the revenue of their crucially important after-sales businesses. Whether they can use this technology to their advantage depends on how they leverage the data to improve the customer's experience with the automaker and its retail network. Automakers and dealers must put the tools and infrastructure in place to capitalize on the information they will have at their disposal and use it to their competitive advantage, which will strengthen the relationship with their customers. ●