MAKING CAR SALES DIGITALLY PERSONAL

Five misconceptions regarding online car sales

MOST CAR BUYERS begin online but end up in dealerships. Currently, the share of online vehicle transactions – actual car sales – remains small; in Germany, for example, it represents about 15 percent of the total, according to the DAT-Report 2018. Conventional wisdom now suggests online sales will replace those made offline, making retail dealers redundant. On closer inspection, however, several myths emerge regarding this perception.

MYTH: ONLINE CAR SALES WILL SOON MATCH OFFLINE VOLUMES AND IMPORTANCE

In 2017, US online shopping of all types (including mail order) exceeded traditional department store shopping by a factor of three. Some say new and used car sales will follow the same trajectory, and online will become the dominant retail channel for the industry. Reality, however, suggests that online car sales will continue to lag other sectors, and appropriate online offerings – especially from automakers – will remain scarce.

Several factors underlie this slow adoption. For one, cars are not commonplace consumer goods, given their expense (typically, they represent the second-largest household investment after housing). Where cars can cost tens of thousands of dollars, the average value of online shopping orders is currently $82 in the US. The decision process surrounding automobiles is comparatively long, and service and maintenance needs continue long after the initial purchase. Consequently, customers prefer the advantages of online sales (convenience, transparency) coupled with the practical aspects of offline sales (trust, physical experience). Demographic mismatch may also play a role. The consumer group currently most comfortable with online purchases is from 35 to 44 years of age; the average German car buyer, on the other hand, is 52.8 years old.

Nevertheless, since the discussion continues to circle around online sales, automakers should take steps to enter the online market as soon as possible. They must stay competitive and prepare for the time online car sales do indeed make up a large portion of their sales volumes.

MYTH: ONLINE SALES PUT CAR DEALER NETWORKS AT RISK

Some argue online sales will make dealers redundant and that heavy automaker investments in online sales present a conflict with dealers and other network stakeholders. Instead, the integration of dealers is vital to the success of online sales. Much as they did with financial services products, car companies will take over direct customer interactions in car sales – negotiating and transacting deals. But automakers also need strong and local fulfillment partners. Even in the online car sales world, an efficient fulfillment process (one that includes test drives, showroom or direct car deliveries, logistics, and personal contact) is a necessity. Proximity to available dealers is frequently named among the top 10 criteria for car buyers when selecting their preferred brand and model.

With mobility-as-a-service (MAAS) concepts gathering more traction, competent retail organizations as fulfillment partners will shape the ownership lifecycle and customers' journeys. This constitutes a shift in the dealer's role, but not necessarily a dilution of it. Retailers might compensate for declining margins via lower working capital requirements and fewer financial risks.

MYTH: NEW CARS DO NOT QUALIFY FOR ONLINE SALES

Another argument makes automakers out as reluctant to pursue digital retailing because cars (especially new ones) are inappropriate products for online sales. For example, the right of withdrawal and extensive consumer rights concerning online shopping compel automakers in Europe and the US to take back vehicles without explanation within a certain timeframe. This stipulation opens them to two major risks. First, today's almost limitless vehicle individualization possibilities could make a customer-specific configuration difficult to resell; second, a returned car no longer qualifies as new, subjecting it to steep depreciation.

However, given the number of financed and leased vehicles (64 percent in the German new car segment) compared to those purchased via cash-payments, it seems unlikely that many customers would dishonestly go through this lengthy financing process just, for example, to secure a cheap holiday car for their next trip. What is more, customers who pursue the complex process of finance contracts or lease plans are more likely to be long-term planners, which should reduce the risk of contract withdrawals and vehicle returns.

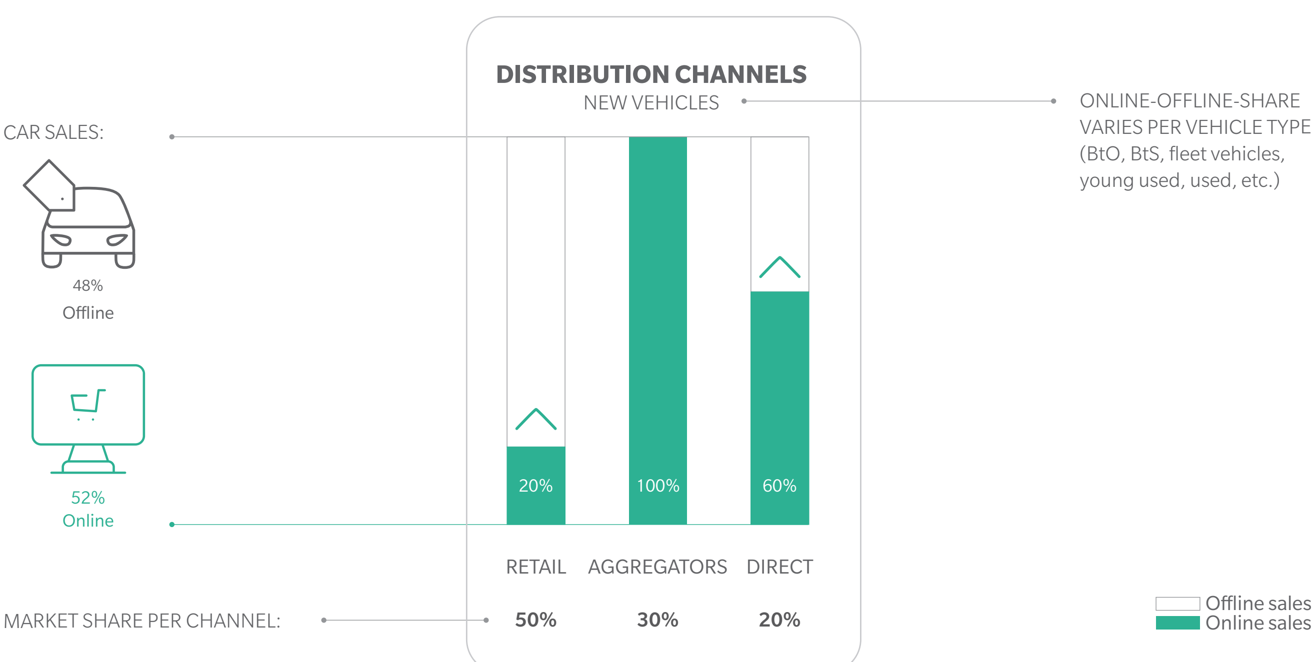
To support online sales, automakers thus need to develop appropriate online offerings. This strategy includes focusing on optimized stock vehicles (with standardized options and lower complexity) and used cars initially and then expanding offerings over time.

MYTH: AGGREGATORS WILL DOMINATE, ELIMINATING AUTOMAKER RETAIL PLATFORMS

Automotive companies often see the risk of investing much in online sales, since other industries' online markets following a "winner take all" trend, dominated by a small number of aggregators like Amazon or Alibaba. The automotive sector, however, is unlike other such industries. Compared with white goods, for example, which relied heavily on aggregators prior to substantial online sales, cars – especially new cars – have always used brand-specific dealers because automakers focus on their brands rather than just the retail price and discounts to compete. Despite a slight decline recently, automotive brand loyalty still exists, enhanced by lock-in effects like aftersales service and warranties that make direct purchases via car dealers attractive. These effects will likely increase as the world becomes more digital and connected services enable automakers to create their own ecosystems and offer customized offerings and enhancements before, during, and after a car purchase.

EXHIBIT 1: FUTURE AUTOMOTIVE SALES STRUCTURE (TARGET PICTURE 2025)

Online will grow in all three main channels in automotive sales



Source: Oliver Wyman analysis

MYTH: THE ONLINE CUSTOMER EXPERIENCE LACKS THE NEEDED PERSONAL CONTACT

Some observers believe online sales lack the personal contact needed to serve automotive customers, who approach car-buying with significant levels of emotion. The thinking goes that such transactions require an empathetic human touch. However, a clear and structured online customer journey can generate the additional data required to understand customers and enable cross- and upselling. Ideally, retailers should combine digital contact points with personal contacts to deliver the best possible customer experience. (See Exhibit 2 in article "Getting Online Car Sales In Gear".)

EXPANDING ONLINE HORIZONS

Compared with other industries, online automotive sales require more time to achieve a large-scale presence. While certain automotive sales channels (such as online aggregator vehicle platforms, especially in the used car segment in Europe and the US) can already rely on an existing online infrastructure and significant transaction volumes, others will probably remain offline. (See Exhibit 1.)

Younger car buyers expect a digital, hassle-free sales experience. To deliver it, automakers need to combine on- and offline sales points to offer a true omnichannel experience. This necessitates a new form of cooperation between car companies and dealers, one that emphasizes the right products, takes advantage of strong brands, and adopts a data-centered approach to meet the customer's ever-changing expectations. •

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A version of this article first appeared in Forbes on May 23, 2018.