

● Beyond Bricks and Clicks

The future of automotive dealerships

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Since using ASE I have had a better overview of my cars, which have helped me lower my days to turn and increase my return on investment

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● Rules Change, OK? Introduction

Professor David Bailey works at the Birmingham Business School and is a Senior Fellow at the UK in a Changing Europe programme.

It is said that there will be more change in the car industry in the next ten or twenty years than in the previous hundred. Think of electrification, and the shift to autonomous, connected vehicles creating a demand for mobility as a service - and even a complete rethink of how customers relate to the 'automobile'.



PSA chief Carlos Tavares summed it up well...

“the challenges of our industry are really, really significant... the green deal, autonomous vehicles, connectivity and all those topics need significant resources, strengths, skills and expertise.”

Source: kandeu.ac.uk/peugeot-fiat-merger-uk-plants-fear-future

The industry enters this period of upheaval already stressed. Major international auto markets were slowing or stagnating even before Covid-19 hit, impacting on the bottom line, while at the same time auto firms are investing huge amounts on this raft of new technologies. A big squeeze is playing out, and scale is seen as increasingly important for car firms. The cash hit from Covid will exacerbate such trends.

As a result, car makers are looking to jointly develop platforms (the expensive technologies that underpin cars) and share them across different brands and models, as well to find cost savings through bulk purchasing of components, as well as through plant closures and job cuts.

So even big firms like VW and Ford are collaborating on EV development or 'skate boards' which will be shared across multiple brands. Similarly JLR and BMW are cooperating on electric motor development as well as new internal combustion engines. That agreement may extend to platform sharing. Think of a few 'mega platforms' which will dominate the industry.

As range improves and battery costs come down, expect a tipping point to come in the early to mid 2020s when EVs really do out-compete ICE cars. Then we will start to see a mass shift over. And the 'event horizon' of new ICE cars sales being banned is also being dragged forward by governments, from 2040 to 2030. Time really is running out on ICE in new cars. There is less than a decade to go - some form of hybrids excepted - and the clock is ticking.

This impending shift to EVs is likely to massively simplify car making and also servicing. Supply chains will face major change and so will dealers. A crucial source of revenue for many dealers will be hit as EVs will be much simpler and require less servicing.

Shared mega platforms might mean that some dealers can service a range of different models across different brands based on a few such mega-platforms (something PSA-Fiat is currently proposing to the European Commission to get regulatory approval for their merger).

Yet the key point is clear: the EV change coming will mean fewer dealers perhaps servicing a wider range of models and brands based on shared technology. Some dealers can survive and prosper but only if they do things differently.

New disruptors coming into the market will also bring very different business models. Tesla for example doesn't use franchised dealers but rather sells direct. Customers buy from Tesla and don't haggle over the price. They are also buying a range of services as part of the deal - autopilot, software upgrades, access to a proprietary charging network and increasingly solar and home battery technology. Going into a Tesla dealer is more like visiting a tech store than a traditional dealer. Millennials and female buyers may find this much less stressful.

Moving seamlessly from online to physical will be expected. Think of being able to design a car online and then come into a dealer to visualise it and try out a similar model. The dealer itself may not need to hold so much stock if this is done well. Or envisage inspecting a second hand model on line in detail before even getting to the dealer.

A car dealer's website may need a different entry platform, asking the buyer about their lifestyle and what they are looking for before moving onto identifying models and brands that fit that customer at that point in time. Think of how Netflix makes recommendations, for example.

And linked to this, the customer will likely be buying a bundle of services. That might include access to a range of models depending on their needs at different times, over a certain mileage, which would tie in with the move to mobility as a service and a subscription service. What the dealer will be offering is likely to be a bundle that the consumer puts together for a fixed price. The 'art of the deal' will be in making this process easy, intuitive, fun and personalised.



“This impending shift to EVs is likely to massively simplify car making and also servicing. Supply chains will face major change and so will dealers”

Customising and tailoring the package to what the customer wants will be key in terms of creating value. Explaining how the package adds up in a transparent way to give an overall price will also avoid the need to haggle, a major source of stress for many buyers.

And for new cars, co-creating the car with the consumer will also be important in enabling her to design the product she wants, which might then be built specifically for her. 'Build to order' has long been a feature in premium and luxury markets but not so much in mass markets, where assemblers still churn out stacks of cars and vaguely hope to sell them, sometimes selling them at a major discount.

A shift towards greater personalisation and questions as to whether assembly economies of scale will be so significant for EVs may mean that this is called into question, raising issues for some dealers about the viability of the supply of 'nearly new' cars.

Whether or not dealers and servicing need to be co-located is another question. Given the ease of servicing EVs, this could be mobile, with mechanics increasingly visiting home and workplaces for routine minor servicing. I'd still expect a delivery centre for the consumer experience of the hand over. That handshake (or post-Covid elbow bump) between buyer and salesperson still resonates for many people.

Short term (within the next five to ten years) electrification and a shift to selling services will change the economics of dealerships. Longer term (twenty years away) fully autonomous cars may finally arrive in cities. That too will bring big changes.

Consumers today use their cars as all-purpose vehicles, whether they are commuting alone to work or taking the whole family on holiday. In the future, they may want the flexibility to choose the best service solution for a specific purpose, on demand and via their smartphones.

Changing consumer preferences, tightening regulation, and technological breakthroughs will add up to a fundamental shift in 'mobility behaviour' especially in dense urban environments that could proactively discourage private-car use. As a result, the traditional business model of car sales will be complemented by a range of diverse, on-demand mobility solutions and dealers will increasingly sell services.

Consumers' new habits of using tailored solutions for each purpose will lead to new segments of specialized vehicles designed for very specific needs.

For example, the market for a car specifically designed and manufactured for e-hailing services - i.e. a vehicle designed for high utilization, robustness, high mileage, and passenger comfort—would already run into millions of units today, and this is just the start.

Research by the Rocky Mountain Institute in the US suggests that automated mobility services could capture two-thirds of the entire US mobility market in 20 years. It argues that the rise of automated mobility services could be one of the most interesting and complex disruptions of the modern era.

If correct, there are some huge implications for car makers and markets. What has been termed 'peak car ownership' in the United States could occur as early in the 2020s and could fall rapidly thereafter. There will be winners and losers depending on how quickly car makers and dealers embrace new business models for mobility services; auto firms and the value chain that provide mobility services and autonomous vehicles could reap substantial profits.

Again, traditional automotive players that are under continuous pressure to reduce costs, improve fuel efficiency, reduce emissions, and become more capital-efficient will feel a squeeze, potentially leading to consolidation or new forms of partnerships among firms.

A final point. Software competence is increasingly becoming one of the most important differentiating factors for the industry, such as in ADAS/active safety, connectivity, and infotainment. Longer term, cars will be increasingly integrated into the connected world, and automakers and dealers will have no choice but to position themselves in the 'new mobility ecosystem' - effectively a reconfigured value chain. In the far-off future that might even mean some dealers servicing automated robo-fleets.



“ We believe the hybrid model is far more viable for both brands and dealer networks ”



The Death of the Car Salesperson is Overblown

That is why we believe the hybrid model is far more viable for both brands and dealer networks. The record profits that dealers have driven through June to October 2020 in the used car sector underline the potential for the automotive retail sector to find a happy medium. Used car sales presents an opportunity for dealerships to sustain their entrepreneurial spirit and use aftersales to offset the operational costs of running the business.

What is crucial is ensuring the automotive industry gets the balance between supply and demand right. Clearly, there is a leadership role for brands to play in managing production, but equally dealerships – the people closest to customers – have an important role to play in educating the brands on the potential in each market. This is where embracing some of the requirements of the agency model will be helpful.

Under the agency model, dealerships will need to analyse data in real-time to understand the purchasing intentions of their customers. With a solid understanding of their customers, dealers will be able to identify opportunities to upsell services, but equally they will be able to apply these insights to understanding demand. This can contribute to managing supply for new vehicles and dealerships that work collaboratively with their brand partners will be able to ensure the market for new cars does not compromise interest in used vehicles.



Tough Decisions Ahead

It is crucial dealers pro-actively plan the way forward creating a route to market that offers the best chance of making money. It sounds obvious perhaps, but if you allow the market to dictate to you, you will lose out. It is not going to be an easy process. There will be tough decisions to make about how to maximise the efficiency of the network, considering whether to redevelop or even close some dealerships to maintain profitability. It will also be critical to diversify, ensuring the business has a robust used car strategy with a clear understanding of how to overcome the increased competition for stock. Above all, the senior leadership team must qualify how reliant performance is on the current business model, how efficient utilisation is and how it can reduce assets to deliver savings.



The New Age of the Dealer

The world of dealers will change dramatically in the next five years and the landscape will look very different. Scale is going to be important, particularly to fulfil the requirements of the agency model and still maintain a viable business model, so it does raise questions about the viability of family-run independent businesses.

It does not mean they will necessarily disappear, but it will be even more important for these locally run businesses to emphasise their specialist knowledge and trusted status in the community to underline their value to their customers. There will be more consolidation in the industry, as this will be the easiest route to scale and it will be necessary to invest in the technology and services to ensure dealers remain relevant.

The successful dealers will be those who, like Tesla, have worked out what they want to be famous for and repeatedly demonstrate they are indispensable to customers. They will operate comfortably between the on- and offline worlds and will react effectively to the consumer's demands for more immediacy of service and experience. For those dealers who get the strategy right it will lead to a new age in the relationship between the dealer and consumer, one where the knowledge and reputation of dealers prepared to exceed customer demands will move the industry beyond the old perception of sheepskin coats and dodgy sales tactics.

The New Age Of The Dealer

Mike Jones, Chairman, ASE Automotive Solutions



Checking for Vital Signs

It is no understatement to say that the last year has seen consumer behaviour change dramatically across the board, but especially in retail settings. It is a worrying time for dealers as brands very publicly announce plans to reduce their dealer networks and new car sales fail to return to the pre-pandemic levels of last year. Long-term electric vehicles (EVs) could be a blessing or a curse, depending on your outlook. A raft of new EV brands are suggesting they will follow the Tesla model and cut out dealers, but EVs sales are growing exponential, so it could be an opportunity if you ignored the fact that over time it will have a dramatic impact on service revenue.

It is stating the obvious, but dealers have to adapt if they are to remain vital to the overall process of selling vehicles. That is no small task given the challenge of legacy assets and trying to second guess the future strategies of brands.

However, it is not necessary (yet) to check dealerships for vital signs, because an essential truth remains; namely that dealers are still seen by consumers as the trusted experts when it comes to making a final decision about buying a car.



So, What Will the Future Look Like?

Some commentators have speculated about different models ranging from a variation of today's more entrepreneurial operations to brands owning the retail model or even outsourcing it to partners. We are already seeing a wide variety of new entrants, which could make the market even more crowded as online services provide more choice for consumers.

That said, the level of investment required to build a complete retail infrastructure, on top of delivering innovative car technology, makes it highly unlikely established brands will want to own the complete retail distribution infrastructure. In our opinion at ASE, it is far more realistic that brands adopt one of three models:

- The believers: Brands wholeheartedly embrace the agency model
- The traditionalists: Brands continue with a form of the existing model
- The pragmatists: Brands opt for a hybrid approach merging entrepreneurial and agency models

While the enthusiasts may be excited about the potential of the agency model, and the traditionalists are equally wary, we believe the pragmatists' view offers a more balanced response to the changes ahead. It is a more measured evolutionary and less disruptive approach for both brands and dealer networks, as in reality the agency model will mean significant change for everyone.

If a brand adopts a "pure" agency model, it will deliver more predictability, but it will also bring a level of rigidity in terms of how dealers monetise services. Pricing must be fixed to ensure true omnichannel is possible. Consumers have shown they want this consistency online, but it denies dealers the flexibility to use discounts to drive opportunities. The agency model will also demand investment from dealers in the integration of off- and online services. This will be crucial to build a reputation for service excellence to attract and retain customers. Equally, it will require access to a distribution network, which can conveniently

fulfil consumer demand (please do read the piece by Brett Hague, Head of Network Strategy, Mazda UK to understand the importance of convenience and choice).

It is why we are seeing some dealers buying wholesale businesses in recognition of the need for scale.

Customer service is going to need close attention, as the customer journey will be more fluid, with consumers drifting between on- and offline engagement with brands and their dealers. It will demand more instant responses as consumers have become accustomed to in the online world. It will require investment in training staff to work differently and performance must be measured using a new set of key performance indicators (KPIs). With all this investment of time and resources, it is very likely dealers will not drive the same level of revenues they have in the past, unless they can identify new ancillary services to replace lost margins.

● A Walk On The Bright Side

Daksh Gupta, CEO, Marshall Motor Group

A little bit of context is important when considering the current state of the retail automotive sector. This is the second lowest period of growth for the industry ever (-0.05%). Prior to this year as an industry we have only ever lost money once in 2008, when it hit -0.01%. With all the challenges brands and dealers have faced over the years, together they have always managed to get through difficult times. This symbiotic relationship has ensured the long-term average global profitability for the industry has been around 1%, which may not seem like a lot but it is significant when you consider the UK automotive market alone is worth £82 billion.

However, it would be foolish to ignore the disruption that is coming. There are two clear trends that will have a significant impact. It does not mean, though, that the outlook is bleak. Yes, there will be changes in distribution models, yes some dealers may decide to sell up and there will likely be more consolidation leading to brands requiring fewer dealerships; but I am confident that those businesses which plan ahead

properly, have the scale and robust business models will benefit from the more streamlined distribution infrastructure. To survive dealers must understand the long-term impact these trends will have so that they can identify the opportunities ahead.

🔌 The Electric and Digital Opportunity

Responding to the Clean Air for Europe (CARE) regulation will see the biggest change in the industry's history. The threat of fines and growing consumer demand for more environmentally sustainable models, means brands are initiating dramatic shifts in their car production. Volkswagen Group, who we partner with in the UK, has already committed to investing \$100 billion in electric vehicles (EVs) and by 2030 will have 30 pure EVs and 70 hybrids. To ensure they are successful in converting this production into sales it will require scale in terms of distribution. This will help to drive down the cost of ownership and make EVs more affordable. Clearly, this is an important role that dealers can fulfil.

The other main challenge is digitisation, which has grown exponentially this year. Certainly, the number of consumers visiting showrooms has declined, but that does not mean the dealer will become redundant. The consumer journey is changing, but those dealers who understand how this impacts their customer relationships will be able to adapt. Indeed, I believe digitisation will be a good thing, because it will help us to streamline processes and offer new services. For example, take the wide variety of paperwork that has to be completed to buy a new vehicle – the more this can be completed online, or automated will dramatically reduce potential frustrations in the purchasing process. Digital can also be used to drive predictability in revenues. With connectivity, cars are now able to talk directly to dealerships. Take the Jaguar Land Rover app that books services directly with the dealer from the vehicle, making for a far more efficient process.

Physical showrooms will have to adapt. For example, at Marshall Motor Group we talk about 'Experience Centres' and use the engagement with customers to help personalise vehicles with the features customers want. This engagement with experts is still vital. Despite the capabilities of virtual reality and other technologies it is impossible to properly experience a car online. It is still one (Society of Motor Manufacturers and Traders (SMMT)) of the biggest purchases we make and that makes it an emotional choice. Having the dealer on hand to guide customers through their choices should never be underestimated.

📈 Glass Half Full

Brands are facing huge challenges when it comes to balancing future investment and maintaining existing operations. In reality, manufacturing a vehicle is only 40% of the total cost of bringing a vehicle to market and with brands already making significant strides to consolidate National Sales Companies (NSCs) it is clear retailers will come under scrutiny to drive greater efficiencies. Giving dealers approximately 15% of the value of the vehicle to use for discounting is one obvious reason why the agency model has become so attractive to brands. It will reduce the amount given to retailers to 3% of the value and it will impact balance sheets, but for well-run businesses this change will be perfectly manageable. In reality the prospect of 3% is not that different to the average margin dealers currently make under the existing model once you take discounts into consideration.

Furthermore, I would say the agency model is nothing new. It has been around for many years in areas such as fleet management. It will also mean significant cost reductions for dealers no longer holding vehicles on their balance sheets. The increased predictability of revenues will be valuable too, as will the growing number of customers using PCP which more and more looks like the sort of subscription model you would expect from the likes of Netflix or Apple. Consumers are comfortable with this approach and we are seeing high numbers renewing their PCP every three years. Valuing these customers as subscribers, rather than one-off purchasers will mean astute dealers can build further predictability into their revenue streams.

Used car strategies will also be critical to offsetting lost aftermarket revenue as EVs become more mainstream, but this will require the heft of a national distribution network, which will make it challenging for smaller independents to operate. That said, these specialists will be able to survive if they consider their strategies carefully – dominating in smaller markets, rural locations may offer possibilities where the larger dealerships cannot drive the right level of volume to be successful.

Longer-term there will be an impact to the balance sheet for dealers, but the advances in car technology, connectivity and electric vehicles will generate a new range of opportunities for the entrepreneurial dealership. Adjusting to these changes is no different than at any other stage in the evolution of this industry. Marshall Motor has existed for more than 30 years and has bought and 167 businesses, exiting 45 over that time. This has enabled us to maintain and grow an incredibly profitable balance sheet. It's why we're confident about the future and are comfortable looking at the world through a "glass half full" lens. As the UK sees further consolidations the market will evolve, but

the size of the market will stay the same. That means for the dealerships, who maintain a strong business there is an opportunity to grow, improving returns which in turn will lead to better valuations.

To sum up, there is a bright future for those in the automotive retail sector with the right business models. I believe it boils down to three priorities:

- **Partnering with the right brand:** We are delighted to be Volkswagen Group's largest partner in the UK. VWG has made bold statements about its intentions for electrification, but this reflects the harsh reality that it is now about survival of the fittest. In the UK approximately 15 brands cover up to 80% of the market and if brands are not investing heavily in EVs they will struggle. Conversely, those brands and their dealer partners that make the right investment decisions for the future will have the opportunity to grow
- **Pick the right market:** pretty obvious, but do not attempt to run a Porsche dealership in a small market. It is why brands are putting so much effort into right sizing their dealer networks to ensure footprints reflect demand. My one ask of the brands is that they move faster and offer maximum transparency, so that dealerships can plan accordingly – Honda has been excellent in this respect.
- **Choose the right property solution:** Having the right cost and infrastructure base is going to be crucial moving forward. This needs to include considerations around used car strategies and how moving to EVs will affect the usage of space.

“With all the challenges brands and dealers have faced over the years, together they have always managed to get through difficult times”



● Strategy Reset To Create Certainty To Uncertain Times

Robert Jones, CEO, ASE Automotive Solutions

➤➤➤ Accelerating into the Future

Even before the Covid-19 pandemic the automotive industry faced a huge bill to modernise and fend off next generation competitors. As consumer purchasing preferences have transformed during the last nine months, the time is fast approaching to pay the bill. Manufacturers need to accelerate their investment in innovation simply to stay current, but it is a mammoth task as they must develop new product, evolve the retail channel and redefine their operations. How on earth do they pay for it all?

Rather than simply be overwhelmed by the immensity of the challenge, the more dynamic automotive brands are adopting strategies that will enable them to prosper regardless of the speed of consumer and technology change.

🔌 Start Fresh

During these uncertain times automotive brands face a fundamental strategy reset as they look to invest in the future and build robust businesses. Given the scale of the challenges they face, brands must start with a blank sheet of paper and evaluate how far technology will change their business models. In Tesla we are already seeing how radical that change can be, but for long established automotive companies such change is incredibly disruptive. Having a well-established business model can be an advantage, but now it is becoming a source of cost. Between the factory and the dealer there are normally four steps in the distribution channel from the factory to the regional structure, then the national sales company (NSC) and finally the dealer. It is clear that stripping out layers in the operational model can deliver efficiencies. Take the incentives paid to dealers, which by one industry estimate equates to between 10 and 20% of overall revenue. This is a significant expense for brands affecting their volume aspirations. With the growth in adoption of electric vehicles (EVs), connectivity and shared mobility, there likely be less dealers required to support customers. Driving efficiencies in the dealer network, potentially moving to a different model such as the much-discussed agency model, will create a very different relationship between brands and dealers.

It is no surprise, that these brands are entering into partnerships to mitigate the costs of investment in technology and accelerate the pace of change. It is leading to product consolidation as brands increasingly build different models on the same platform to streamline R&D and manufacturing costs. However, this isn't without risk as it makes it harder for consumers to differentiate between products. The more commoditised a car becomes the less store consumers will set by it, potentially reducing the desire to own a vehicle. Therefore, the intrinsic value of the brand is becoming increasingly important to engage consumers.



“Through this period of turbulent change it will be critical for brands to be what I call “Positively Different.”

⚙ Shift Gears

It does not mean brands should discard dealers as no longer necessary, but it does require a mindset shift. To date there has been an unspoken assumption that dealers should accept the burden of responsibility for getting ready for EVs, both in sales and aftersales. We have been surprised by industry feedback that some brands have not even started evaluating the monthly aftersales revenue generated from EVs vs traditional internal combustion engine (ICE) vehicles. We are actively encouraging clients to start categorising service revenue in the same way they categorise sales revenue. By reviewing EVs vs ICE after sales revenues separately to assess performance it will help brands identify where they need to offer their dealer networks direction. Such focus on key performance indicators (KPIs) will be important as brands explore other revenue opportunities with their dealer networks, such as generating revenues from software licensing as the vehicles become more “connected”.

Above all, it is critical to think ahead now. As already highlighted, the key customer relationship currently lies with dealers and the brands are in a process of trying to “own” that customer. As that transition is completed the brands will have to work harder to provide dealers with the opportunities to drive revenue.

Future measurement of dealers performance requires a different approach to benchmarking, which is far more focused on return-on-investment. As brands move to the agency model the retail price and therefore the residual value will be more tightly

controlled allowing the brand to “fix” the agency fee income for their dealers. This will remove much of the flexibility dealers had to discount in order to close deals and offset the costs of their capital investment. The dealers can then focus more on customer or brand experience, following concepts such as the Apple Store and pop-up shops, which present less vehicles than a normal showroom.

👥 Be Positively Different

Ultimately, the coming year will be a critical one for automotive brands. They will likely seek to implement the agency model in a more widespread fashion, but it will require diplomatic customer interactions to ensure the brand has more real interaction with customers and real pricing controls. Through this period of turbulent change it will be critical for brands to be what I call “Positively Different.”

It would be very easy during this pandemic to be overwhelmed by the enormity of the challenges, but the brands brave enough to reset in these uncertain times, will come out stronger.

Selling Cars In The Era Of Convenience And Choice

Brett Hague, Head of Network Strategy, Mazda Motors UK Ltd

As Robert says, brands like Mazda face significant change in the coming years and the idea of being 'positively different' chimes with how we are approaching our dealer network strategy. It is clear that the customer journey is evolving dramatically with much of the background research and comparisons being done online. Of course, this requires more of an omnichannel strategy from dealers, but it does not mean that the dealer will no longer have an important role to play in the customer journey.

At Mazda we talk about helping dealers use online to sell cars, rather than helping dealers sell cars online. It is a subtle difference, but it lies at the heart of properly understanding the role and significance of the internet in the future of automotive retailing. It comes down to convenience and choice. The strategic challenge for all of us in the retail sector is to find more ways to bring convenience and choice to our customers, because this is what they expect.

Investment is required which should not be underestimated, but close co-operation between brands and their dealer networks will achieve what is already the main objective of our strategy: to ensure we have a viable dealer network. We recognise the pivotal role our dealers fulfil as our brand champions and advocates. While consumers may be turning to the Web for much of the customer journey, they still place significant value the relationship with the dealer to finalise their purchasing decisions.

Addressing convenience and choice may seem daunting given the impact of digitisation and technology on the automotive industry. A quick look at the history of how supermarkets have evolved demonstrates how automotive retailers can adapt and thrive. Years ago the supermarket was part of the High Street, but was replaced by the megastore. Now the metro convenience stores are making it easier for consumers to access their favourite brands near where they live. Sophisticated technology ensures supply chains operate efficiently, mobile applications and data analytics enables supermarkets to target shoppers with more personalised discounts and offers. The difficulty is managing to keep up with the pace of technology change. The pandemic, as in the automotive industry, is paving the way for the next generation of contactless supermarket shopping, such as Amazon Go, backed by highly automated warehousing and inventory systems.

Infrastructure and Viability

How automotive dealers go about modernising is not simple, but it does boil down to three main areas of focus: technology, people and infrastructure. Infrastructure is possibly the most significant and costly challenge, particularly when you think about the requirements to support electric vehicles. The growth of the EV sector means that no dealer can avoid addressing the investment required to meet demand. One major question that is often not fully evaluated is how much power capacity a site may have, which will affect what type and volume of services a retailer may be able to offer. More importantly, retailers need to be looking ahead to understand how much capacity they have into the future and at what point a site is no longer viable. These are highly technical questions, which require specialist consultancy and need to be planned carefully.

Technology and Customer Confidence

Technology can be an overwhelming topic to consider, because it can refer to the "front of house" web and mobile applications interacting directly with consumers or the vast array of back-end applications required to run efficient operations. The difficulty is deciding where to invest first, but if you are guided by the principle of finding ways to offer more convenience that is a good start point. Looking at how your online presence interacts with consumers and is able to adapt to different stages in the customer journey, whether the customer is online or face-to-face in the dealership, will be critical. It will ensure you build trust with customers, because they have confidence you understand their needs and are providing the valuable, expert insight they require to make decisions.

Getting the Right Brand Advocates

However, if you have the right infrastructure capacity and have invested in the latest digital technology, but you do not have the right people to operate in this environment it will be incredibly difficult to build the reputation for convenience and choice that customers expect. This is understandably the most sensitive consideration for any automotive retailer as how businesses have operated has been the same for so many years. Yet, it is crucial that brands and dealers encourage 'positively different' thinking about the roles, skills and rewards offered to employees. We are already seeing some paying their staff differently, increasing base salaries to attract a different type of talent. Employees will have to be comfortable in more multi-functional roles covering sales, aftersales and marketing in contrast to the more specialist traditional roles in the dealerships of old. Clearly, it will require more technical skills, a much greater level of comfort with online as well as offline communications, so that staff can respond appropriately to customers wherever they choose to engage with a brand.

Despite all these shifts, there are also some core principles that will not change. It boils down to viability for the dealer and convenience for the customer. For instance, at Mazda we focus on helping our dealer network understand how to right-size and achieve a practical facility with a sustainable cost base. Ultimately our aim is to help our dealers achieve better than industry average returns, and be a partner that is easy to work with.

The best advice to any automotive retailer is take time to plan ahead strategically and use the obstacles that may lie ahead to focus on what is essential to build a viable business for the future. If you build a business around a scalable infrastructure, the right technology investment and attract the right team to work with you, there is every chance of building a long-term successful automotive retail business.

“The strategic challenge for all of us in the retail sector is to find more ways to bring convenience and choice to our customers...”





“ it is the consumer who will dictate how the market evolves, so those dealers who demonstrate a unique understanding of what the consumer wants they will show their value to the brands ”

Effective Omnichannel Strategy

The internet has trained consumers to expect service from automotive brands and dealerships more akin to Netflix than Blockbusters. Customers want an experience that is both simple and tailored to their needs. Both Cazoo in the used car market and Tesla in the electric vehicle sector show how the right level of service can attract and grow market share.

The start point must be a seamless on and offline proposition across both sales and aftersales. It also requires a sense of urgency around the communications strategy to reflect the immediacy of expectations in the online world. Many dealers have invested in modernising their website propositions, but have failed to implement a chatbot or website monitoring service to react to inbound enquiries. They may have staff responding to phone calls, but do not have someone monitoring social media and email with the same urgency to react to customer needs.

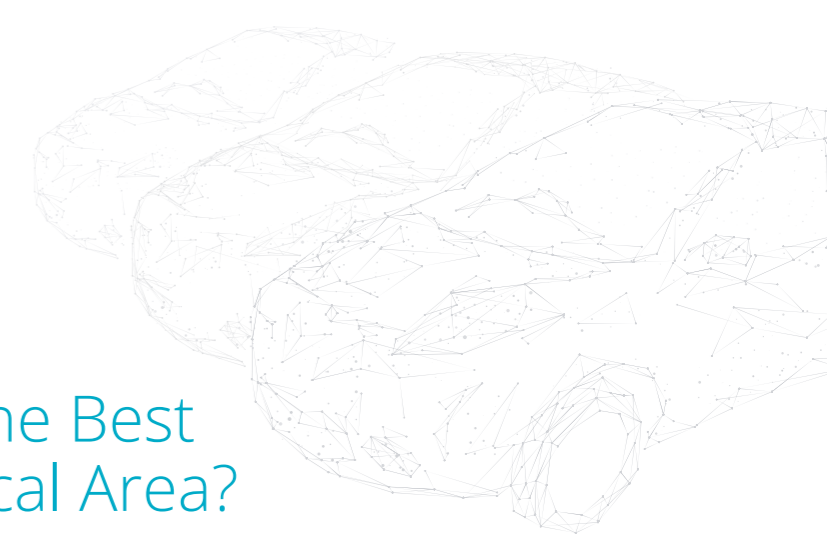
Ultimately, the consumer expects a different relationship with brands and dealers. Most of the decision making process for a vehicle will have been done online, so brands and dealers need to understand how to insert themselves into this consideration stage. Equally critical is understanding how consumers rate the dealership before they step foot in the showroom. Peer reviews are the most important influence on the consumer's decision-making, both in terms of vehicle choice and which dealer to entrust with their purchase. When it comes to the showroom visit consumers are not looking for sales people to help them make a decision, but to act as positive reinforcement for the

decision the consumer has reached. This requires a different mindset from dealers and the creation of a different experience by the brands.

But how do you know you are on the right track? An age-old technique still holds true. Ask a friend or family member to act as a secret shopper and get them to rate your performance on and offline. This will give you many revealing insights, good and bad.

Customer Loyalty is Not Dead

So is it going to be harder to build customer loyalty in the post-pandemic era? Certainly, the internet disintermediates brands and dealers from a lot of the decision-making process, but there are many techniques to insert the brand and demonstrations of the dealer's expertise into the customer journey. But it will require a very different style of customer engagement and an ability to cope more significant change in the next five years than we have seen in the last 50 years. It will require a new breed of multi-talented, technology intelligent staff within dealerships, who are comfortable with change and uncertainty. It is clear that Tesla's approach can offer a very different, but lucrative relationship with the customer and importantly, most brands still recognise the value that dealers bring to the equation. What is more important is that consumers recognise the value dealers offer...how do you find out if consumer rate your expertise? Just ask Google!



● Hey Alexa! Who Is The Best Car Dealer In My Local Area?

Mark Fennelly, Head of Global Consulting, ASE Automotive Solutions

The Future is Already Here

The pandemic has accelerated change beyond anyone's expectations. By McKinsey's estimate we have seen 10 years worth of increase in ecommerce deliveries in just eight weeks and the longer than uncertainty continues around Covid-19 the more habituated consumers will become to online shopping. In two months, they rapidly became accustomed to making one of the largest purchases we ever make, buying a car, over the internet without ever entering a showroom and in most cases even sitting in the vehicle. This has upended business models for dealers overnight, who are now scrambling to meet consumer expectations, who now demand engagement with the immediacy they have been conditioned to expect in the online world.

Death of the Dealer Network?

The maturity of online marketplaces like Amazon and the success of Tesla is encouraging brands to be even bolder in their direct to consumer strategies. There is a real danger that dealers could be cut out of the loop and we have already seen high profile announcements by brands making significant cuts to their dealer networks. It is very likely there will be losers and by some estimates there will be a 15 - 20% reduction in the number of dealers worldwide.

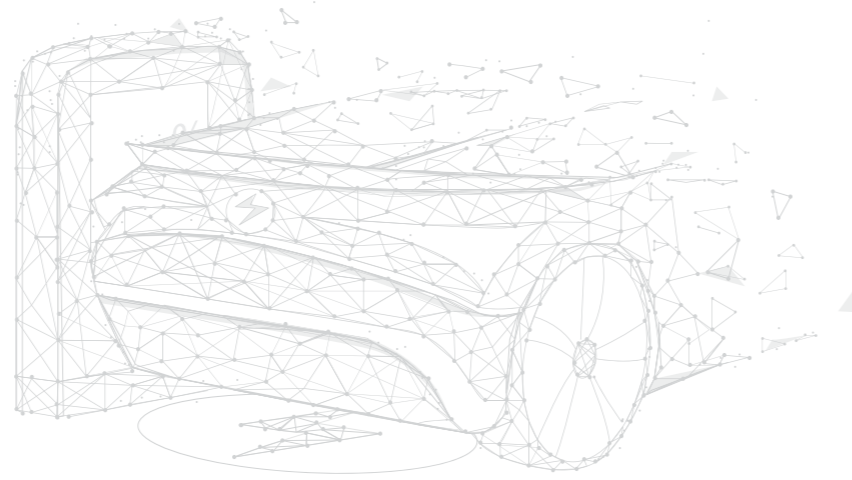
However, this will not happen overnight, because it is simply impractical to offload an entire dealer network in one go. More importantly, dealers do still hold a trump card in that they have traditionally owned the relationship with the consumer and for the pragmatic among dealerships there's an acceptance that brands like it that way. It means they avoid the type of class action litigation that we have seen most recently with 'Dieselgate.'

So dealers do have some time, but they need to move quickly to demonstrate they properly grasp how deeply the consumer experience will change in the years ahead. Ultimately, it is the consumer who will dictate how the market evolves, so those dealers who demonstrate a unique understanding of what the consumer wants they will show their value to the brands.

build common chassis for individual models to manage the cost of investment in innovation. Therefore, brand will be of even more importance to the consumer. How consumers purchase is also going to evolve as new services and technology give consumers more choice.

Other changes coming from the brands will also have an affect on the relationship between the dealer and consumer. If the agency model comes to dominate then pricing will be far more fixed, so when the consumer comes to the dealer how the dealer demonstrates value will no longer be influenced by price and the lure of discounts. From a design and build perspective vehicles will also become harder to differentiate between, because brands will have to

In this context the crucial consideration for the dealer has to be how to adjust the approach to closing the sale. In future, as car design, technology and usage evolves consumers will have to be convinced vehicles are relevant to their lifestyles, not consumers picking a model because they want their lifestyles to reflect the brand of the car.



Some Final Reflections

Professor David Bailey works at the Birmingham Business School and is a Senior Fellow at the UK in a Changing Europe programme.

What dealers 'do' will change radically as the auto industry transforms over the next few years towards connected, autonomous, shared and electric vehicles - as the expert contributors to this report vividly illustrate.

Amidst technological revolution, regulatory change and rapidly changing behaviour – accelerated by the Covid crisis – dealers will have to rethink their relationships with both car-makers and buyers, and quickly. Those that manage this change quickly can still thrive.

As contributors highlight, reaching consumers used to streaming services and online buying will need a very different sort of engagement, but one that can still be profitable. Whilst there is much talk of an agency model, in reality many car-makers are struggling to keep abreast of a rapidly changing environment and are increasingly adopting an 'open innovation' model where they look outside for ideas.

Dealers, if they anticipate change and adapt quickly, can offer car-makers a trusted route to market and consumers. Meanwhile consumers will look for help in navigating a raft of confusing new technologies to choose a car that fits their lives. Dealers can still offer a trusted bridge between makers and buyers, albeit in new ways.

That bridge will need new skills for staff and an embrace of new technologies, operating seamlessly across online and physical spaces, in rapid time. The investment to do this will require scale, in turn prompting consolidation and collaboration amongst dealers.

The much-hyped agency model also raises questions over how innovative such a dealership model would actually be. Rigid pricing is required to underpin an omnichannel model; that consistency may be attractive to consumers who like the simplicity of the offer but it also eliminates any flexibility for dealers to respond to changing consumer tastes.

As the contributors to this report highlight in different ways, the industry will need to strike the right balance between demand and supply. Brand owning OEMs will of course lead on the R&D and production side, but dealers will continue to provide critical market intelligence, being close to consumers. While a variety of models may proliferate, some forms of hybrid approach seem most likely.

The impact of simpler EVs in reducing servicing revenue will prompt dealers to look for new revenue streams such as through the buoyant used car market. That again points to the need for scale – although specialist independents will likely survive in niche segments and spaces.

In short, we live in disruptive times – but when haven't we? Entrepreneurial dealers have thrived as the industry has changed dramatically over the last century. Going forward, by embracing new approaches, new technologies and new relationships with consumers and brand owners, dealers can continue to thrive.



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