

The future of Automotive Retail: An Indian Context

AN AVALON PERSPECTIVE



New Age disruptions impacting the customer journey

Advent of digital technology and the wave of electric cars are set to make huge changes in the traditional car dealership model. Technological trends suggest a profound transformation is under way in the automotive space which will change the customer journey map irrevocably.

Industry 4.0

Automation, data exchange, 3D printing, could change the way we produce our cars

Autonomous Driving

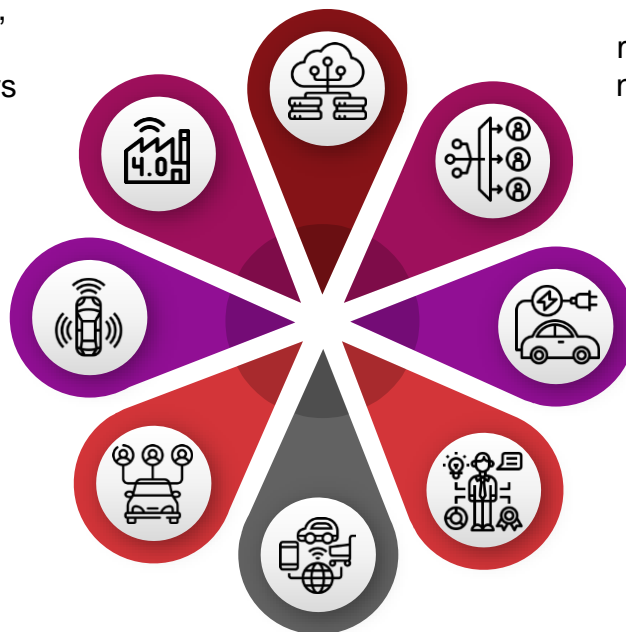
Autonomous or driverless driving may completely revolutionize the industry

Car Sharing

Renting of cars for short periods of time, could revolutionized individual mobility

Connected Cars

Connected cars and IOT can enable a completely new driving experience



Big Data & IOT

Big data can help manufacturing companies run networked production systems

Digital Customer Interface

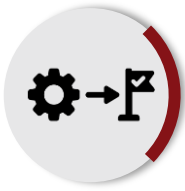
Direct Access to customers via digitization revolutionizes customer access and insights

Electric Vehicles

Electric vehicles will reduce our dependency on fossil fuels

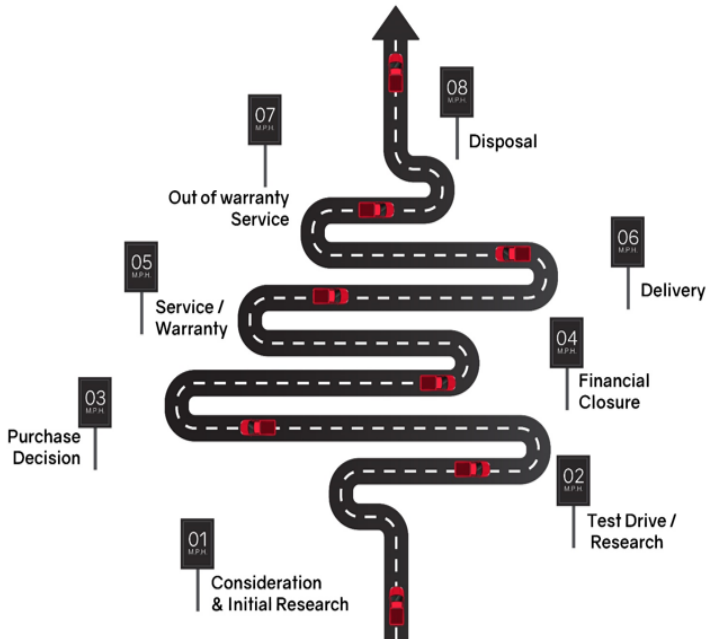
Skilled Workforce

Skilled Digital workforce is needed to be successful in this journey



Traditional Dealership Functions and Operating Models

An automotive purchase is a *high-value, high-cost* purchase that demands a high involvement from the customer. Dealers play a pivotal role in helping customers take the decision.



There are broadly 8 touchpoints in the customer journey for automotive ownership [from consideration to Disposal]. Dealers administer most of these touchpoints and are important players in the value chain.

The dealers assist OEMs as a representative on their behalf by creating a cordial environment to address customer concerns, providing a hands-on experience, assisting the customer in financial closures, and providing after-sales service/support.

The dealership models present in India are typically single-OEM with Chinese walls between different OEM dealerships. The functions of dealers are mainly Sales, Service, and Other related Value adds.

Sales



- Dealers are responsible for generating leads and increasing footfalls in the showrooms by conducting various outreach events.
- Providing a cordial environment to address concerns, providing a touch-feel experience by facilitating test drives, and delivering the cars by maintaining inventory

Service



- One of the most important functions of the existing setup is providing after-sales service to the customer
- Typically, dealers make less money in sales while service has the highest contribution to the revenue of the dealer
- As a representative of the OEMs dealers have to maintain service standards

Other Value-add

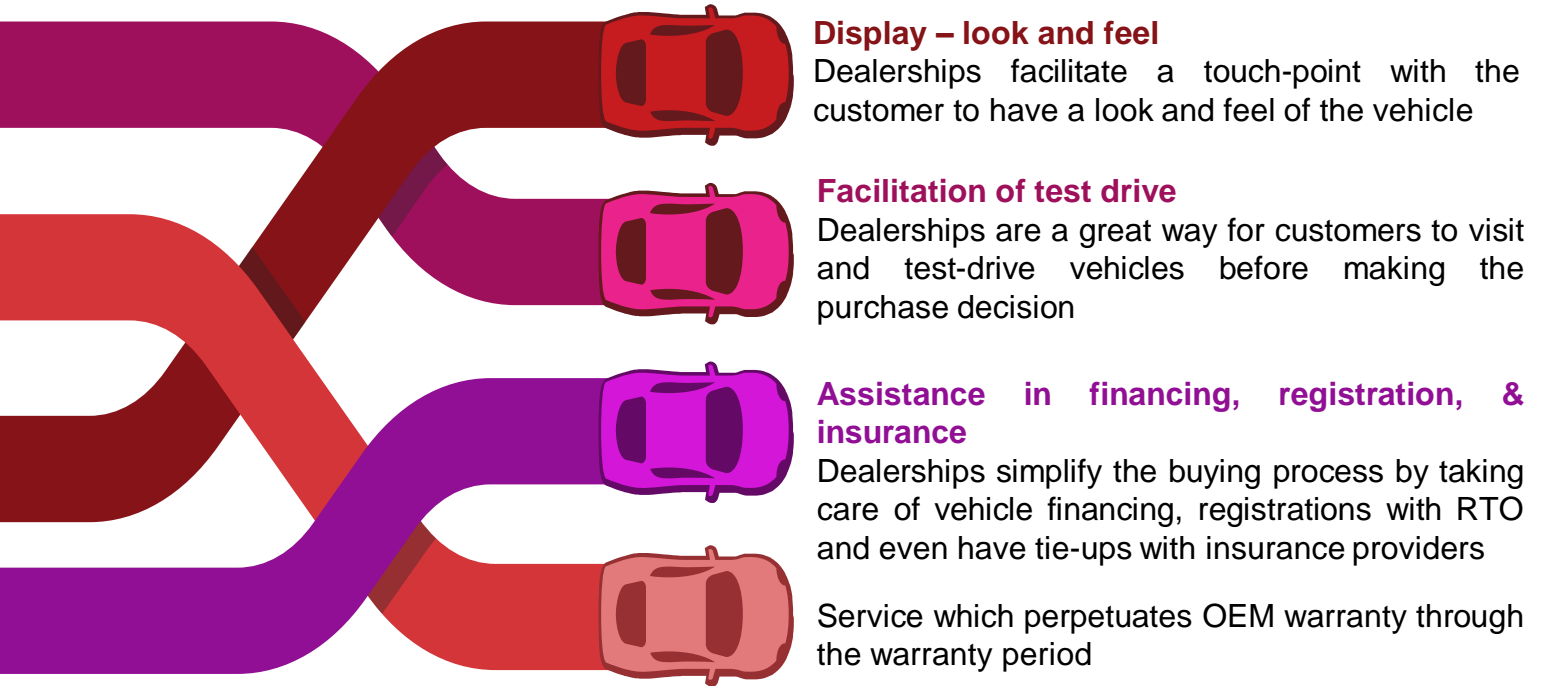


- Vehicle purchase also warrants registration, insurance, etc. which is facilitated by the dealers
- The dealers also facilitate financing by providing access to (or by collaborating with) various lenders thus making the purchase journey smooth for the end-customer



Dealerships offer utility to both Consumers and OEMs equally

Dealerships were the strong pillars of support driving the strong correlation between customer retainment and delight. Here are ways in which they offer utility to consumers:



Dealerships are often considered as the face of the OEMs and their collaboration has a lot of potential to unlock value for vehicle manufacturers. Here are some of the ways in which they offer utility to OEMs:

Local stock point and inventory financing

Lead generation and managing sales cycle

Customer test drive enabling



Stocking auto-component spare parts

Providing specialized services by trained mechanics

Primary touchpoint for the entire customer lifecycle



Erosion of Value Proposition offered by Auto-Dealerships

Increased internet accessibility and swiftly changing customer lifestyles have a protruding impact on the value propositions of the automotive dealership. The existing value chain will be soon realigned to be more efficient for both extremes of the value chain [OEMs on the upstream end and customers on the downstream end].

Value Propositions getting eroded at the Upstream end

Lead Generation – the dependence of the OEMs on the dealers has reduced as more leads are being generated online compared to the events conducted by the dealers



Touch-feel – Display in malls/public places/roadshows have become increasingly cheaper for the OEMs thus providing a touch and feel experience for numerous customers without involving dealers. However, currently these are managed through dealers

Accessibility to the data – unlike in the existing setup where OEMs have to depend on dealers for data on existing customers and vehicles in use, the new era of the internet where OBD and telematics are helping OEMs get a firsthand impression on a real-time basis



Value Propositions getting eroded at the Downstream end

Information Accessibility – various platforms like websites, blogs, and apps are helping customers get more information. This is directly affecting the Initial Research and Consideration phase of the journey



Value Add On – Increased competition and ease of accessibility to information have made customers aware of the financial options, and insurance providers thus further reducing the dependence on the dealers

Overcharging – various digital platforms and easier access to user feedback have exposed authorized service centers for overcharging the customers, thus making customers aware of the practices and prices



Registration – government initiatives to bring in more transparency and an easier registration process will further reduce dependence on the dealers to get vehicles registered with the RTOs.



- A 360° experience using virtual reality will further help OEMs to provide a more personalized experience
- The OEMs will gradually upgrade to new formats like online stores, boutique stores, etc.



Changing Automotive Retail Business Models

Auto-dealership Business models are being questioned by the advent of EVs. Service will be impacted through proliferation of EVs requiring fewer service interventions and through digitization.

- EVs are resulting in lower footfall because of direct sales by new OEMs (e.g. OLA, TESLA)
- In addition, the average maintenance and service fee is also lesser, which results in lesser customer spend per visit to the showroom or service center. Spiraling real estate costs would make city centre showrooms even more commercially unviable
- Key EV components may have their own aftermarket network and focus (Bosch, LG, Panasonic, Samsung)

EV Disruption in After Sales Processes

Job Classification	Item	Typical Service Frequency	Presence in EV
<i>Preventive Maintenance</i>	Engine Oil & Oil Filter	7,500 / 15,000 km	✗
	Fuel Filter	30,000 km	✗
	Air Filter Cleaning	15,000 km	✗
	Air Filter Replacement	45,000 km	✗
	Drive / timing belt replacement	100,000 km	✗
	Vacuum Hoses / modulators for TC / EGR	60,000 km	✗
	Gear Box Oil/Transfer case Oil	45,000 km	✗
	Bearings	Check on every service	Remotely
<i>General Repairs</i>	Engine Overhaul	✓	✗
	Gear Overhaul	✓	✗

Monitoring of the critical parameters like brake pads, belt tension, bearing wear can be done through a mix of sensors and telemetry

Globally alternative models are being developed. In China, the largest car market in the world, automotive sales are steadily shifting towards the online channels:

- **Car malls in China:** China's electric-car makers are paying top-dollar rents to open showrooms in luxury malls, as they seek to gain an edge in the hyper-competitive market.
- **Online sales of cars:** Alibaba's T-mall has come up with a new retail concept called the "Automotive Vending Machine" where buyers will be able to browse cars on their smartphones, press the buy button, and the car will appear at ground level from a vending tower
- **Value-added services by OEMs:** Tesla offers direct sales, over-the-air updates, and predictive diagnostics with mobile service



Changing Indian Landscape

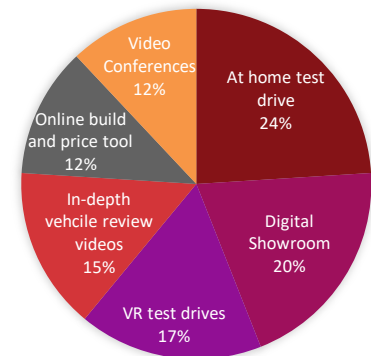
Digital Consumption is at an all-time high in India, this uptick in consumption is leading to changes in customer search behavior combined with lifestyle enhancements and this certainly mandates disruptions in the retail business models in India. It is important for the existing dealers to maintain pace with the changing customer needs to remain relevant.

If available, 4 out of 5 people who would like to buy a car would like to use an online mode

Small retail players are likely to get benefitted due to customer preferences and ease of access to information as:

- Web-based sales inquiries have increased from 3 to 39% over the last few years, this has reduced walk-ins to the showroom significantly
- Broadly, 6 out of 8 touchpoints of the customer's journey with the dealership are now digital

The small retailers with low operating costs, and low CoGS have become competitive



Preferred alternatives to Visiting the Dealership

We feel that although responses give a certain direction, however, the physical touch-point will continue to be important and auto dealerships will have a crucial, albeit reduced, role to play

“Today’s auto dealers must provide easily digestible information in varied formats to build a successful online relationship with customers to boost the direct sales”

The widespread proliferation of EVs is likely to result in either of two possibilities

1 Consolidation of Sales and aftersales dealers

- Advent of Virtual reality and 3D – the physical inspection of the car will lose importance
- No. of service visits as well as revenue per visit will reduce, thus reducing the revenue per bay
- This would necessitate a larger car park for an individual workshop to sustain which will lead to the consolidation of dealers

2 Size of car outlets will shrink

- OEM will increase the parts margins of the dealers which will enable the dealers to breakeven which with smaller number of bays
- OEM will increase margins on sales which will enable the dealers to counter the impact of lower car sales

Other disruptions such as shared mobility and autonomous cars will however have limited impact in the short terms

Shared Mobility

Although private car ownership is declining and multi-modal integration is boosting access, high-mileage of shared vehicles will warrant higher replacement, thus maintaining the sales numbers

Autonomous (Self-drive) Cars

Autonomous Cars will take some time before impacting the auto industry significantly. Also, insurance companies will place liability on OEMs, sensors and device makers rather than customers



Evolution of Dealerships

- Although the traditional dealership model might not perish, the changing business environment will ensure survival of only those who are able to adapt.
- Our analysis shows that in the new era OEMs will have to pass on an additional discount of 10% to enable the dealership to maintain PBT at the same level.

So, finally, we arrive at the question of How? How can dealers evolve

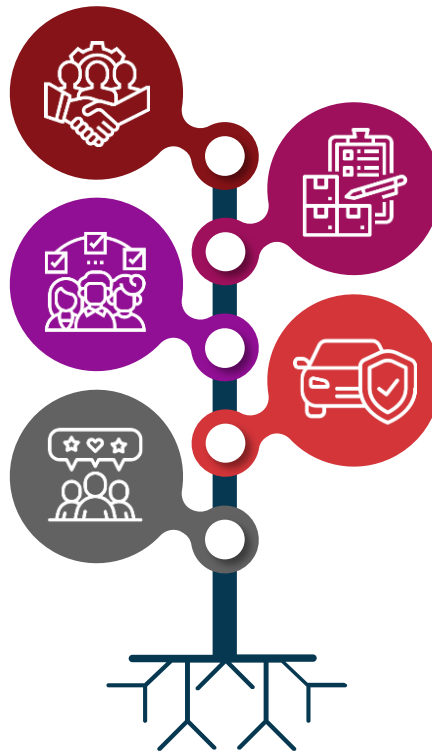
From single OEM to car malls?

To achieve regional multi-OEM service flexibility?

More collaborative approach with the OEM using big data and analytics to create an omni channel presence for the customers

Improve customer centricity by means of interactive website, service-based apps and providing home delivery of parts and accessories

Upgrade the customer experience by incorporating Retail Walls and 3-D configurators in the existing stores



Minimize inventory holding and transfer bulk of the sales process online and instead focus on ensuring high levels of customer satisfaction

Tap into the second-hand car market which is yet to pick up big time in India (in comparison to the developed markets such as USA)

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