McKinsey&Company

Consumer and Shopper Insights
July 2013

Racing ahead: How digital is changing and enhancing the car buying experience

By Gianluca Camplone, Dr. Jan-Christoph Köstring, Dörte Hahn and Liza Kerschbaumer

Few purchases are more visceral than the experience of buying a car. Gripping your hands on the wheel, feeling the soft comfort of fresh seats and watching the road pass quietly beneath you are all an essential part of most customers' decisions to buy a new car. At least for now, the act of physically test driving a car hasn't been radically transformed by digital technology.

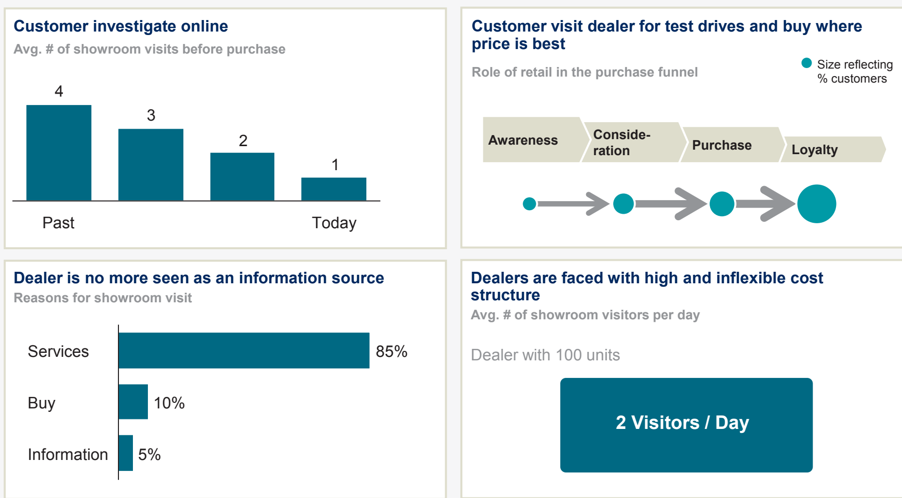
Yet so many other aspects of the car buying experience have, and these changes are visible all along the automotive consumer decision journey. This includes the consideration, evaluation, purchase, and experience phases. For instance, digital channels are now the primary information-gathering source during the consideration phase for 60 percent of car buyers.

Purchase behavior is changing drastically, too. Previously, customers made an average of five dealer visits before purchasing a car. Now when they arrive at a dealer's showroom, they are so well-informed from online research as to only need one visit. About 50 percent of customers say they would even consider making the actual purchase transaction online if it were possible. The digital age is spawning fundamental changes, and both car manufacturers and dealers need to rev up their pace of innovation in order to fully grasp the opportunity.

In this article, we draw upon extensive research conducted among car buyers, car dealerships and a wide range of industry experts. We surveyed 600 car buyers in the U.S., the U.K., and Germany on their digital usage patterns, covering the entire consumer decision journey. We also surveyed representatives of more than 50 car dealerships in Germany to understand their current usage of digital technologies

Exhibit 1:
Digital changes the way customers buy cars

DISGUISED CLIENT EXAMPLE



SOURCE: Expert interviews, McKinsey

and gauge their plans for future implementations.

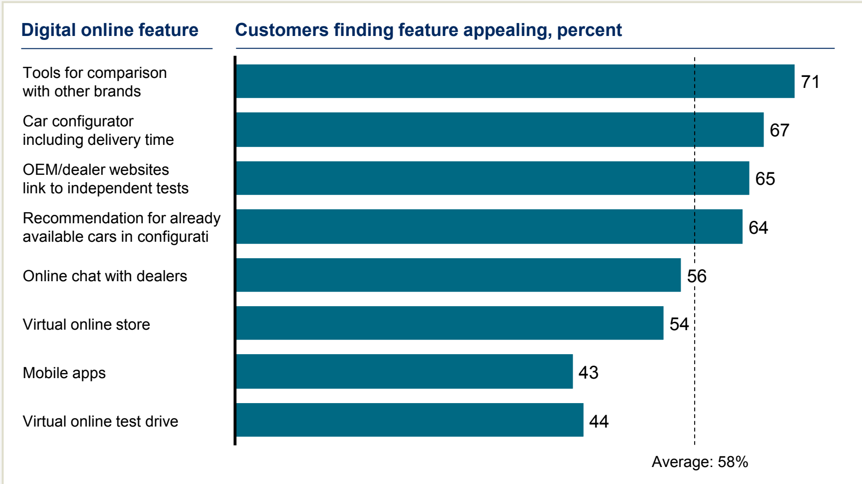
From this research, six core beliefs emerged:

1. Digital is the no. 1 customer-influencing and information channel.

The RoPo phenomenon (research online, purchase offline) is growing continuously. Some 70 percent of auto customers start their journey digitally. While in-person dealer visits are still a top information source for customers, car manufacturer web sites now play an equally critical role. Both were named by 52 percent of respondents as important influences on purchase decisions. These were followed by dealers' online offerings. In light of this, both dealers and manufacturers should maintain a state-of-the-art web presence and have a system in place for adapting it to new technological developments.

Exhibit 2:

Beyond digital information sources, customers are very open towards any type of digital feature



SOURCE: Consumer survey of 600 digital-affine car buyers which used digital element to recently buy a car (US/UK/Germany)

2. Digital has given rise to a new type of customer.

Car dealers report that only 5 percent of their customers are not highly informed upon their first visit. Customers come armed with product feature details, model history and price comparisons. As a result, the purchase process needs to be adjusted to respond to and act upon a far more specific set of customer requests.

At the same time, the digital offerings of each car model are becoming more and more complex, requiring expert knowledge to explain. In response to these trends, one manufacturer decided to mimic the Apple store's Genius bar. Their so-called "product geniuses" are dedicated sales staff ready to explain the nuts and bolts of the car, with particular expertise on digital features. Product geniuses are also equipped with a state-of-the-art information management system on a tablet device, allowing, for example, product configuration and in-depth explanation of features supported by visuals and films.

At all stages of the customer decision journey, various digital innovations can enhance the customer experience. Customers say they are very open to new types of digital features: 71 percent say yes to tools for comparing different brands, 67 percent to online car configurators, and 56 percent to online chats with dealers. For dealers, test-drive simulators and life-size configurators save showroom space, reduce the test-drive fleet, and boost upsell potential. The benefits for customers include the ability to visualize the increasing variety of car options produced by the current mass customization trend and the ability receive much better information about the models they are interested in.

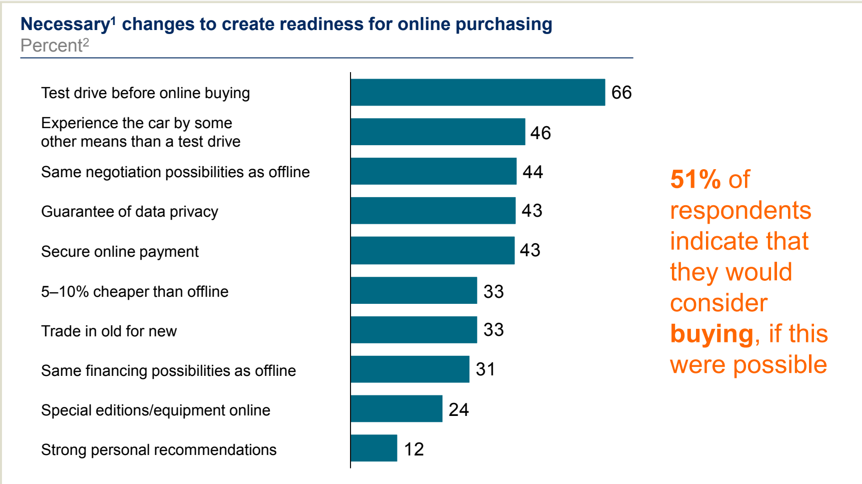
3. Digital car sales are a matter of fulfilling prerequisites and of creating a value proposition.

Two-thirds of the customers we surveyed stated the necessity of a test drive as part of the car purchase process, but nearly half indicated that some other way of experiencing the car might suffice, and that they would consider buying a car online if it were possible and if some preconditions were met. Such prerequisites include the ability to still take a test drive, to somehow virtually experience the car, to negotiate on price and to have access to easy and secure online payments. While currently no manufacturer has had success in selling cars online, a transition to more online sales is inevitable and car makers will need to prepare for this development.

4. Digital will turn the existing auto retail model upside down.

As showroom visits continue to decline, dealerships will need to view the changes underfoot as an opportunity, not a limitation. On one hand, the role of a dealership is changing, becoming more specialized. In fact, since their outlets no longer serve as prime information sources in the customer's consideration stage, dealers are evolving from generalists to providers of test drives and specific information. On the other hand,

Exhibit 3:
Digital sales is a matter of prerequisites and of a value proposition



1 Necessary meaning respondent considers change as precondition for online purchasing
2 Multiple selections possible
SOURCE: Consumer survey of 600 car buyers in the US/the UK/GER

this shift requires dealers to expand and innovate their skill set to become more digital-savvy, since customers will reach out to the dealership either during or at the end of their digitally enabled brand and product due diligence. Thus dealers who find ways to connect with customers in digital pre-purchase channels will have early access to a motivated set of potential new buyers. In addition, dealerships have the potential to expand into a variety of targeted, digitally enhanced retail formats that together address many different customer needs. Dealers of the future will not be floors and walls only: they will seamlessly integrate floors, walls, sales advisors and a digital/social media presence. These new retail formats include:

Brand experience centers: These concept stores are located in urban centers and exhibit a select number of flagship products, with the focus on conveying the brand's image and creating an entertaining and inspiring product experience. Features could include high-end car presentations with animations projected on car surfaces, and interactive stations with product info, including links and codes so visitors can access info via their smartphones.

Concept pop-up stores: These are temporary stores set up at high-traffic locations to advertise a specific product and create buzz, such as the "store" Ford created in Munich for the 2012 soccer Champions League Final. Designed to promote the new model B-Max, the venue resembled a Greek temple and featured a soccer challenge with video analysis and results posted online. Visitors could have their picture taken, which they could then post on Facebook or elsewhere online. Concept pop-up stores, which feature only one or two cars, have a high potential for creating buzz via social media.

Small city center stores: These small stores in prime, high-traffic city center locations address an urban population and have a dedicated sales proposition. Products can be exhibited either physically or, in a scenario where no inventory is needed, through visualization technology, e.g., 3D wall screens showing an extensive variety of cars. The focus is on conveying a brand image, offering a product experience, and answering specialist questions. Audi's store in city centers, for instance, displays the company's model range through high-tech digital visualization tools, replacing the display of actual vehicles. Customers can create and see their personal car configuration on interactive screens.

Test drive centers: These facilities in central and easy-to-reach urban locations offer a broad range of cars for test drives (minimum 50 cars per center; all current model/engine combinations should be present) and provide a staff with a deep knowledge of brand models and technology that can answer all kinds of questions. An on-board computer in the car requests feedback based on situations during the test drive and afterwards the customer gets an automatically generated protocol based on their answers. An attached sales office is available to facilitate on-the-spot buying (including financing and insurance), and a workshop for repairs and services might also be available at these locations.

Car superstore: These large stores at the outskirts of a city offer an "all-in-one" and "cash-and-carry" customer experience. They feature an extensive range of vehicles for customers interested in buying a car on the spot, a staff to answer all kinds of questions, and the ability to settle the purchase, financing and insurance agreements. Toyota's "Longo Toyota" in El Monte, Calif., 20 miles outside of Los Angeles, for instance, sits on 50 acres and employs 500 people. It's a multi-category store with showrooms, a sale office and a spare parts store, and it offers a wide variety of services to retain customers, such as a life-long free car wash. Restaurants, coffee shops and children's play area make this location not so much a store as a destination.

Online store: At the moment, only used cars are being sold online with any regularity. But this is likely to change. Initially, online car channels will be most useful for low-end brands and specific segments. Such online shops should provide enhanced and easy-to-use car configurators and visualization/ simulation tools, all of which should be complemented by offline channels such as a test drive center. The first manufacturer site for online sales, from the Romanian company Dacia, features fixed online offers that enable a quick buying process – just 15 clicks. With a car configurator, customers can individually create their preferred Dacia car model. Specialists are available to chat online and answer specific questions.

Interdependent intermediary online channel: Both manufacturers and dealers can benefit by utilizing the services of third party providers that bring together buyers and sellers, such as Kelley Blue Book, the U.S.' largest vehicle valuation web site. These sites provide direct price quotes from dealers for selected car models, information about fair pricing and independent ratings of cars. They also offer customers an immense variety of products and dealers, and a database for obtaining financing and insurance.

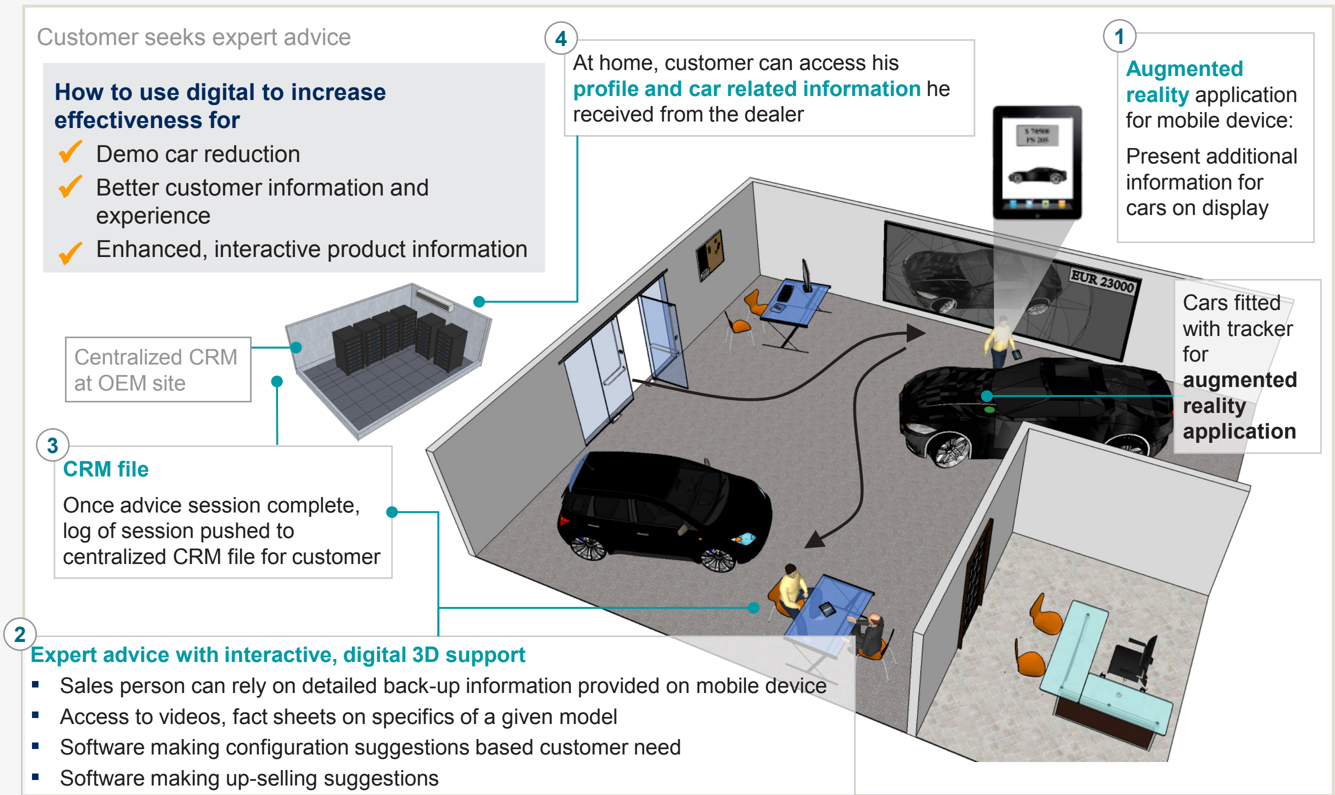
In short, there is no one-size-fits-all format for the evolution of retail. One manufacturer might decide to set up a digital online channel for a specific car model, while another might fundamentally restructure its retail network and substitute retail outlets in suburbs with highly-digitized "city center stores" and a full-service "test-drive center" nearby to reach an increasingly urban population.

5. Car makers and dealers are opening up to the possibilities of digital but have yet to fully grasp the opportunity.

Three fourths of dealers surveyed believe that technologies like tablet computers

Exhibit 4:

A well informed customer can be provided with expert advise supported by digital sources including videos or individual specifications



SOURCE: McKinsey

for sales staff, life-size display screens, and interactive model displays are helpful tools for enhancing the customer experience. Yet they also express concerns about "overdoing" the tech angle. They believe that their customers aren't tech-savvy enough and still require personal interaction. Such skepticism needs to be taken seriously and addressed by car makers who are creating a digital strategy that involves dealers.

6. Achieving success in the digital age is a joint journey involving both car makers and their dealers.

Both parties are still missing out on the full digital potential that is only possible through greater cooperation. An overwhelming majority of dealers say they support car manufacturers in their digital marketing efforts, but barely half of them pass on their customer information to manufacturers. This sharing of information would certainly improve customer relationship management and offer mutual benefits, but competitive concerns often limit the flow of information.

How will cars be sold tomorrow?

While manufacturers and dealers are not in totally uncharted territory when it comes to digital innovation and the consumer decision journey, the focus thus far has been primarily on marketing and less on sales. The true digital revolution is still in its infancy and the opportunities to boost sales and bolster brands are significant.

Take, for example, the case of a retailer with a medium-sized servicing area and an inventory capacity of 45 cars. A decline in revenue during the 2008 recession prompted the owner to enhance his customer experience and service offering through a number of digital initiatives. The dealer added hand-held computers in the service lane, which gave mechanics quick access to a car's technical history and recall orders for a particular car. It also allowed service recommendations to be authorized immediately by the customer while at the service lane. There were new features added to the dealer's web site, including a 24 hour online chat for any service-related questions. The result was a jump in tire sales, from 75 per month to 500 per month, and a tripling of website traffic. Now 55 percent of new car buyers return for service compared to 48 percent prior to digital initiative.

Major changes are ahead in the way people shop for cars. Increasing comfort with digital technologies and a growing reliance on Internet-based research has created a more independent and highly-knowledgeable customer. Manufacturers and dealers have an opportunity to capitalize on this shift, turning it into buyer leads, better products, and more relevant retail formats.

http://csi.mckinsey.com

Gianluca Camplone is a Director in McKinsey's Milan office, **Dr. Jan-Christoph Köstring** is a Principal in Munich, and Dörte Hahn is an Associate Principal in Dusseldorf, where **Liza Kerschbaumer** is an Engagement Manager.