

McKinsey Automotive

A future beyond brick and mortar – disruptive change ahead in automotive retail

How to leverage the current crisis to leapfrog into the next normal



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Introduction and key messages

Disruption ahead – shifting customer expectations, new mobility offerings, and technological disruptions such as digitization, vehicle connectivity, and electrification are driving the transformation of automotive retail at an unprecedented speed and magnitude, radically changing the status quo. The current COVID-19 situation is further accelerating the ongoing transformation and leapfrogging the adoption of digitally-enabled car buying and online sales models. Moreover, the current crisis raises the cost consciousness of OEMs and dealers and facilitates critical decisions on further outlet consolidation, leaner retail formats, direct customer access, and alternative sales models.

Consumer confidence has considerably dropped as a result of the Covid-19 crisis and is also impacting car buying intents. A McKinsey car buyer survey from September 2nd to 4th, 2020, indicates that new car purchase intent in the US is still ~20% below pre Covid-19 levels, while Europe and Asia have already recovered from their lows in April and May (minus ~10 to 40% depending on country) and currently show a drop in purchase intent of ~10% respectively ~5% compared to pre Covid-19 levels. From the remaining respondents with purchase intent around half indicate that they will delay their purchase for at least another 4 months. Economic reasons (e.g., reduced income) dominate the decision to delay the car purchase mentioned by around ~55 to 60% of respondents across countries and become even more relevant, whereas delays due to health concerns (e.g., no safe test drives offered) indicated by ~25 to 35% of respondents keep decreasing. Additionally, around ~10 to 15% of respondents are also holding back to wait for subsidies and discounts to support their purchase. Our survey also shows that this drop is significantly impacted by the primary channel usage. Consumers in the US that are buying their car mainly online are less likely to change their purchase intent (drop by 2pp) than consumers that planned to conduct their buying journey “offline” and purchase in person at a dealer (drop by >8pp). This trend caused a significant rise in the adoption of remote sales tools and online sales channels since the Covid-19 outbreak for both OEMs and dealers on a global scale and will likely continue in the upcoming months. Covid-19 and the current economic situation alarmingly disclose the necessity for players in the automotive industry to act now and to rethink their retail strategies.

Beyond COVID-19, an overhaul of the current automotive sales model has long been discussed due to underlying constraints that affect customers, dealers, and OEMs alike. From a customer perspective, the current retail model cannot fully accommodate the diverse set of realities in terms of customer expectations, needs, and behaviors. Across all regions and customer groups, only 1 percent of the customers we surveyed were “fully satisfied” with their overall car-buying experience. From a dealer perspective, innovative mobility concepts, digitized retail formats, and new market entrants drive significant deterioration of dealer margins, congruent with 88 percent of automotive executives expecting that at least some dealer groups will not survive the upcoming disruptions. From an OEM perspective, the current automotive retail model equates to spending up to 30 percent of potential gross revenue on vehicle distribution in the form of wholesale, structural, and tactical costs of retail. Moreover, 75 percent of automotive executives believe that retail is one of the main battlegrounds where new players will attack to gain customer access, occupy critical elements of the car-buying journey, and gain a significant share of revenue and profits.

Given this context, the future of automotive retail has understandably become a top agenda item in many boardrooms. A noticeable example for this is Volkswagen’s announcement in 2018 to “restructure its sales model” by issuing new dealer contracts in Europe becoming effective in April 2020. Other major automotive players such as Daimler and Toyota have announced similar moves over the past few months with notably accelerating speed and clarity (Textbox 1).

Textbox 1: Announcements of new automotive retail models (selection)

Volkswagen: Digitized and more direct sales model in Europe

Volkswagen’s new sales model aims to “provide seamless individual round-the-clock support for customers,” expanding online sales, enabling direct sales models, and targeting customers more individually through new sales

and service formats such as city showrooms or pop-up stores. In addition, Volkswagen's agreement with the Volkswagen and Audi Partner Association on an agency model for the ID. family marks an important milestone and allows Volkswagen to be the customer's direct contractual partner for the first time.

Daimler: "Best Customer Experience 4.0" and direct sales

Daimler aspires to "offer its customers seamless luxury experiences and lasting memories – regardless of the time, place, or channel they are using. Buying a Mercedes-Benz should become as easy as ordering a book." The "Mercedes me" - ID allows customers to choose flexibly between different sales channels using a single profile. To support its goal, Daimler shifted to a more direct sales model, initiating pilots in Sweden and South Africa in 2019 to sell new cars directly to customers at a uniform price – regardless of whether the customer buys the vehicle via an online or traditional sales channel. In recent months, this model has also been adopted in Austria and partly implemented in Australia for the EQC and other EQ electric models to be launched by the end of 2023.

Toyota: Drive Happy Project in New Zealand

Toyota's Drive Happy Project, launched in New Zealand in April 2018, aims to eliminate several customer pain points at once along the car-buying journey, from online configuration, to extended test-drives, to seven-day money-back options. At its core, Toyota implemented three radical changes. First, the shift to a direct sales model where new vehicle stock is centralized country-wide in three pools and owned by Toyota, which alleviates sales pressure from stock on dealerships. In this model, dealers are compensated via a handling fee for providing specific retail services such as test-drives and vehicle processing. Second, sales reps targets in dealerships are focused on customer satisfaction, not volume, to incentivize customer-centric behavior. Third, prices are haggle-free "Toyota Driveaway Prices" to enhance transparency and facilitate omnichannel purchases.

Sources: company announcements and media coverage

However, staying ahead of the current disruptions in automotive retail will require more from OEMs and their retail partners than simply moving their operations online or going direct. Changing consumer preferences and the non linear speed of change make it difficult for OEMs and dealers to transform their retail models, and it is safe to say that no single OEM or dealer has fully "cracked the code" yet. Inaction, on the contrary, is not an option. The strategic direction of an automotive retail model will likely determine the future success of an entire company, and any step in the wrong direction will be difficult or even impossible to take back. A commitment to innovation in automotive retail is the imperative – and the time to get started is now.

Against this backdrop and based on our extensive research and analyses (Textbox 2), we will provide a comprehensive perspective on three key questions that are currently a top priority for automotive OEMs and dealers:

1. Why exactly is the traditional automotive retail model so severely under pressure at present, and what do OEMs and dealers need to know about changing customer preferences and technological megatrends currently impacting the automotive retail space?
2. What are the compelling future retail model options for OEMs and dealers to stay ahead, and which capabilities and changes do they require?
3. How can individual OEMs and dealers effectively start their transformation journey towards a robust and future-proof retail model?

Textbox 2:

How we derived insights for this report:

1. Launched a comprehensive consumer survey in China, Germany, and the US among more than 3,000 car buyers
2. Conducted dozens of interviews with executives from the automotive industry (both OEMs and dealers), mobility players, and start-ups
3. Worked with an agency to gain firsthand insights into today's retail experience and sales readiness for electric vehicles (EVs)
4. Accompanied a dozen car buyers in the US over a two-month period to gain deeper insights into the emotional experience and consumer behaviors of car buying.

In our attempt to answer the above questions, we distilled three key messages regarding the future of automotive retail and how OEMs and dealers can stay ahead of the disruptive changes in progress:

- The traditional automotive retail model is under severe pressure because:
 - Customer preferences are evolving and significant pain points at various stages along their car-buying journeys persist
 - The ACES trends (autonomous driving, connectivity, electrification, and shared mobility) plus digitization will have a major impact on the current automotive retail landscape.
- OEMs and their retail partners are “stuck in the middle” due to varying needs of today’s and tomorrow’s car buyers and how different players in the market are responding to the changing retail landscape. As our research indicates, their strategies for the future need to become much more diverse and will diverge from the current retail model to an extent not seen before. Because of this, a strong need is emerging to carefully plan and assess their transition into the future of automotive retail. To this end, OEMs and their retail partners should consider our comprehensive perspective on the strategic options currently available to them. From the total number of options, we have defined five different archetypes of future retail strategies: 1) OEM building on dealer as entrepreneur, 2) dealer as execution agent, OEM in control of new-car sales, 3) OEM fostering competition, dealer as exchangeable execution provider, 4) OEM owning the retail approach, and 5) OEM handing over to importer.

While each of these retail strategies appears fundamentally different from the others and difficult to implement at first sight, we strongly believe that a combination of approaches may be best for any given OEM or dealer. Specifically, a region-by-region and brand-by-brand approach to a future retail strategy means that a single OEM or dealer may adopt two or more of the archetypes defined above. Our research highlights parts of the different natures of automotive markets in terms of maturity regarding ACES trends, legislation for direct sales, and affinity for online sales – as these determine not only the speed, but also the direction of change. In addition, OEMs’ market positions differ strongly by region, as do the ecosystems they face.

- At the same time, it is important to quickly begin preparing for the transformation of automotive retail, given the magnitude of change and the implied amount of time that these changes will take within larger organizations. Getting started sooner rather than later becomes even more important when considering the amount of time, it will take to implement changes across the retail networks, which are built on long-term partnerships and investments. To this end, OEMs and dealers should start with five “no-regrets” moves, which will also enable them to prepare themselves to take on and master ambitious future challenges, such as big data and advanced analytics in automotive retail, in the medium and long term. These moves are:
 - Define strategic focus areas and create alignment within the organization
 - Investigate direct and online sales models
 - Consider transaction-price steering as a true game changer
 - Define measures and leaner formats to reduce retail costs
 - Build the necessary capabilities and adapt the organization.

Each of these topics will be explained in more detail in the following chapters.

1 The traditional automotive retail model is under severe pressure

Automotive retail as we know it is facing a radical change that is largely driven by shifting customer expectations and technology trends. Customer expectations for buying a car vary strongly; however, common points of joy (e.g., test drives) and common pain points (e.g., online experience or price negotiation) can be found along the journey. On the technology side, digitization and key ACES trends will fundamentally influence the retail landscape and are described in more detail in Chapter 2.

The myriad ongoing efforts and approaches to transform automotive retail reveal the intense uncertainty associated with both what today's and tomorrow's car buyers actually want and how different players are responding to the changing automotive retail landscape. In light of COVID-19, OEMs and their retail partners are at a cross-roads and should use the rising momentum to accelerate their transition into the future of automotive retail, which goes far beyond simply moving their operations online.

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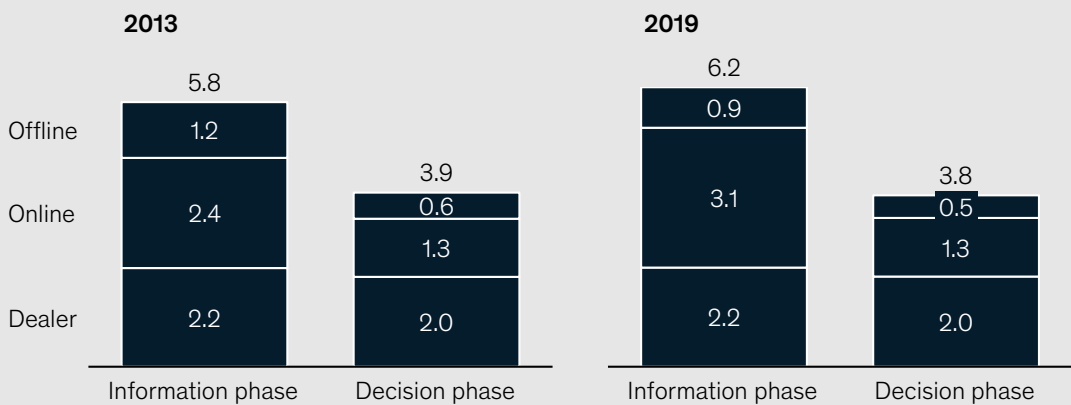
Analysis of data on the car-buying journey from various information sources – consumer surveys, industry expert interviews, car-buyer “ride-alongs” – reveals a comprehensive picture of a diverse set of realities in terms of customer expectations, needs, and behaviors, and shows some interesting developments over time (Textbox 3). Becoming experts in customer-centric and multichannel journeys will be crucial for OEMs and dealers to be able to serve a wide range of individual customer preferences while seamlessly sharing information between channels and retail partners. This diversity becomes clear when asking car buyers about their ideal car-buying experience, with about one fifth hoping for a fast, efficient, no-frills experience, while more than one in ten expect a personalized, and hightouch interaction.

Textbox 3:
Change of car-buying preferences over time

Connecting our recent and historic research reveals a change in car-buying preferences over time. While the number of sources used along the car-buying journey stayed relatively stable, the mix has further shifted towards online sources with an increasing influence of third-party websites. This trend is also reflected in the rising importance of innovative retail formats such as brand stores

in convenient city locations as well as online sales. In return, the need for physical in-store equipment such as expensive virtual reality or digital technologies has dropped, driven by a high share of car buyers who use digital and mobile offerings instead and focus their dealer visit primarily on the physical experience of the car.

Number of sources used along the car-buying journey

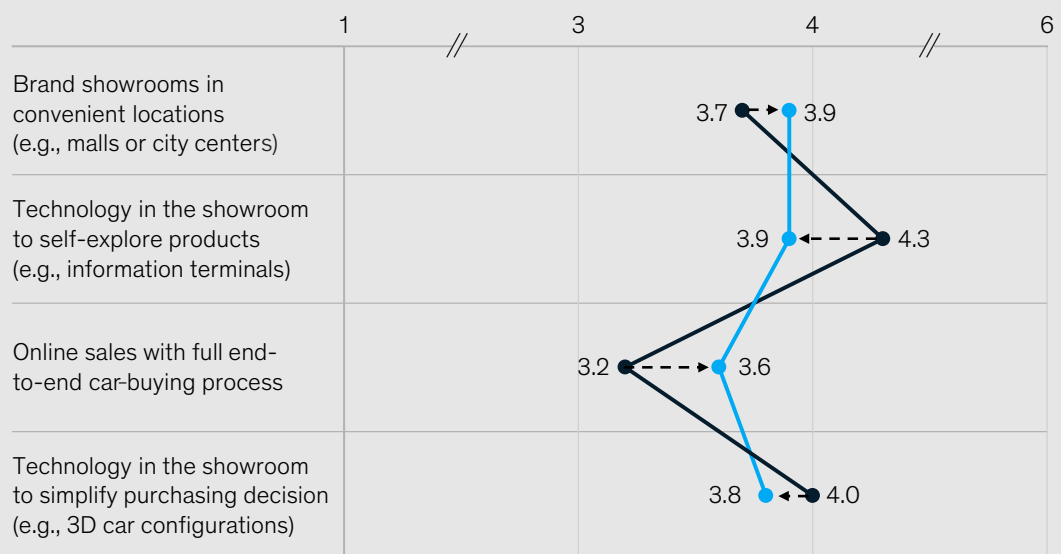


Source: McKinsey

Importance of innovative retail formats and elements

Average score 1 (low) to 6 (high)

● 2013 ● 2019



Source: McKinsey Automotive Retail Consumer Survey (US, China, and Germany)

1.1 The current retail model does not satisfy customer expectations anymore – pain points across the car-buying journey persist

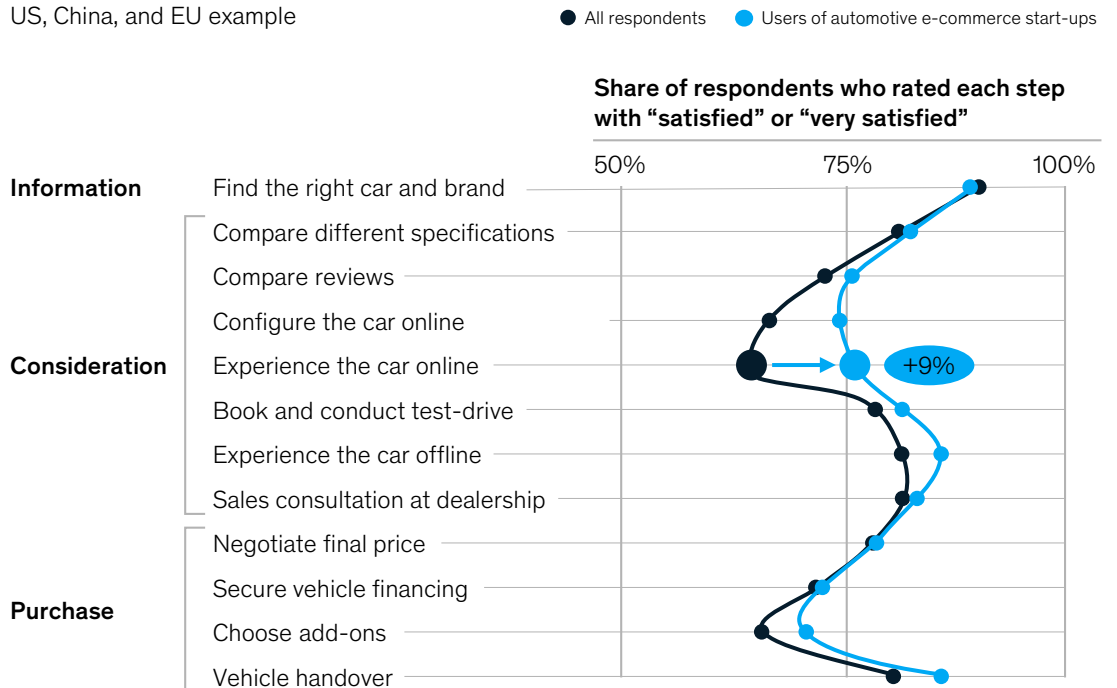
We find a stable pattern of persistent pain points across all geographies and customer groups in three particular stages of the journey: the online experience and configuration of a car, securing vehicle financing, and the selection of add-ons. Our research also shows that customers who heavily use the research, experience, and shopping platforms of automotive e-commerce start-ups in their car-buying process are, on average, more satisfied than others with their car-buying experience, particularly with the digital experiences (Exhibit 1).

To better understand the car-buying process, we followed over a dozen people from the US every week for two months throughout their car-buying journeys. These “ride-alongs” gave us additional insights from a customer point of view. It turned out that moments of real excitement as well as pain points are highly individual but can be grouped along four distinct groups of car buyers (Textbox 4), which we will further characterize in the subsequent chapters. The wide range of car-buyer preferences and behaviors underlines the need for a customer-centric and omnichannel setup that provides a deep understanding of the customer along the entire car-buying journey and beyond.

Exhibit 1:

Automotive retail disruption

US, China, and EU example



Average duration of a customer journey: ~6-8 weeks

Source: McKinsey Automotive Retail Consumer Survey (US, China, and Germany)

Textbox 4:

We accompanied a dozen car buyers in the US over a two-month period to gain deeper insights into the emotional experience and consumer behaviors of buying a vehicle.

Will always need to see the car up front



Roxanne
50 years old
Lives in metropolitan area

“I am a preparation perfectionist and love to do online research; however, I will always need that feeling of driving the car and touching, feeling the materials.”

Wants to lease via online contract



Niloo
30 years old
Lives in urban area

“The financing decision part is the most challenging for me – I don’t really know how to handle the different options; online could be a solution.”

Would consider buying a car online



Stephen
25 years old
Lives in suburban area

“I do feel nervous about the journey as it is a major purchase and I’m on and off about the vehicle type, brand, and model; however, I’m also excited to get a new car.”

Is excited to see and test new cars



Rita
46 years old
Lives in suburban area

“Researching new cars is really enjoyable – I always find new insights/equipment options that I haven’t come across before.”

Key findings from the ride-alongs include:

- Each buying journey is distinct and moments of real excitement are highly individual: Roxanne’s most exciting moment was test-driving her preferred car, while Stephen was most excited once he had finished his online search with a forced ranking list of preferred car models.
- The behavior of car buyers strikingly illustrates the need for a customer-centric omnichannel setup – and the capability of the seller to manage it: Rita, for example, went all over the place in her journey and used Facebook, car newspapers, OEM and dealer websites, as well as several dealer visits.
- Satisfaction levels for individual steps of the buying journey can be highly subjective and need to be managed individually: Niloo felt well informed about the options to lease her car, including all the required details, but the formal paper work and wordy contracts made her anxious at a moment that is very critical for closing the sale.

1.2 Customers' online expectations are rising and acting as a catalyst for change across the industry

Like other industries, the online portion of today's car-buying journeys is becoming larger and more important, driven by the general increase in consumers' affinity for online channels and the clear advantages to OEMs and dealers of using the internet as an additional information and sales channel. Thus, moving online seems to be a natural step for many OEMs and dealers, considering that over 80 percent of customers already use online sources during the car-buying process.

Our research indicates that offline touch points are still a very important part of the journey, especially for the final purchasing decision, but online ones are increasingly shaping customer perception and play a major role in the information and consideration phase (Exhibit 2). Beyond using the internet for

research and comparison, about half of the customers we surveyed would consider purchasing their next car online. The key reasons for purchasing online are time savings, the hope for better prices through online price transparency, and the conveniences of online shopping (e.g., no store visits required). Nevertheless, there are cases, such as in China and the US, where legal limitations constrain opportunities to fully purchase a car online from the manufacturer.

This leads us to believe that online sales will make up 10 to 25 percent of global automotive sales by 2025. Several companies have announced their internal targets, such as Peugeot with 100,000 online sales by 2021 or Mercedes that aspires to sell 25 percent of its new cars online by 2025, while many others, including Hyundai, Volvo, Jaguar Land Rover, Mitsubishi, and BMW, are operating online sales pilots.

>80%

of customers already use online sources during the car-buying process.

Exhibit 2:

Offline is still important, but online is becoming key



Offline touch points still represent key parts of the journey ...

2–3 dealership visits per customer is still the norm as part of the average car-buying journey

~70% of respondents see the dealership visit as a prime opportunity to physically experience the car

Dealership visits are the **No. 1** factor influencing purchasing decisions – followed by test-drives



... but online touch points are increasingly shaping customer decisions and experiences

During the customer journey, online sources were used **>20%** more often than offline sources

>80% of respondents use online sources during the consideration phase

>60% of respondents would perceive booking, paying, and reviewing additional services online as (very) appealing

Source: McKinsey Automotive Retail Consumer Survey (US, China, and Germany)

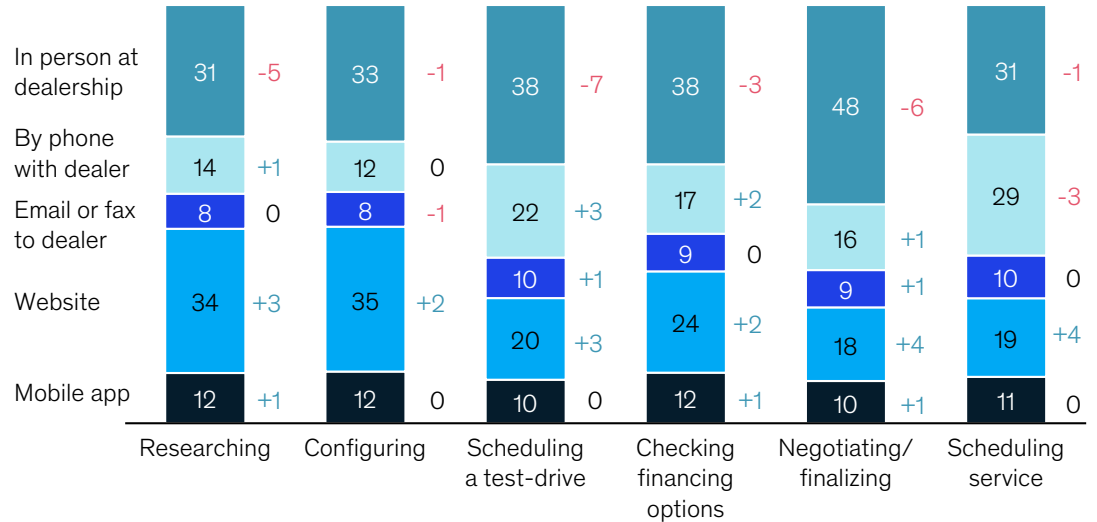
Dealer visits and test drives are still the number one influencing factor for consumers' purchasing decisions today, and around 70% of car buyers still consider the dealership a major touch point to physically experience the car. However, physically experiencing the car will evolve in the future and might also be offered to car buyers in different formats such as test drive centers, home rest drive deliveries or through flexible partnerships such as car rentals for travelers that want to experience their future car for a few days on the road. Thus, the main cause for the slow speed of change is the sheer amount of legacy processes that need to be transformed to fully integrate online and offline. Among these are existing dealer franchise laws, infrastructure development, dealer involvement, and challenges in developing a compelling digital car experience and test-drive alternatives. Changing this model will take time and requires close collaboration between OEMs, dealers, and selected new partners across the retail chain, but our research shows that digital is becoming more important, especially in these times of COVID-19 (Exhibit 3).

Dealership visits and test-drives are still the number one factor influencing consumers' purchasing decisions today, and around 70 percent of car buyers still consider the dealership a major touch point for physically experiencing the car.

Digital is becoming more important along the entire purchasing funnel

Preferred interaction mode for purchasing next car and change from last car purchased^{1,2}

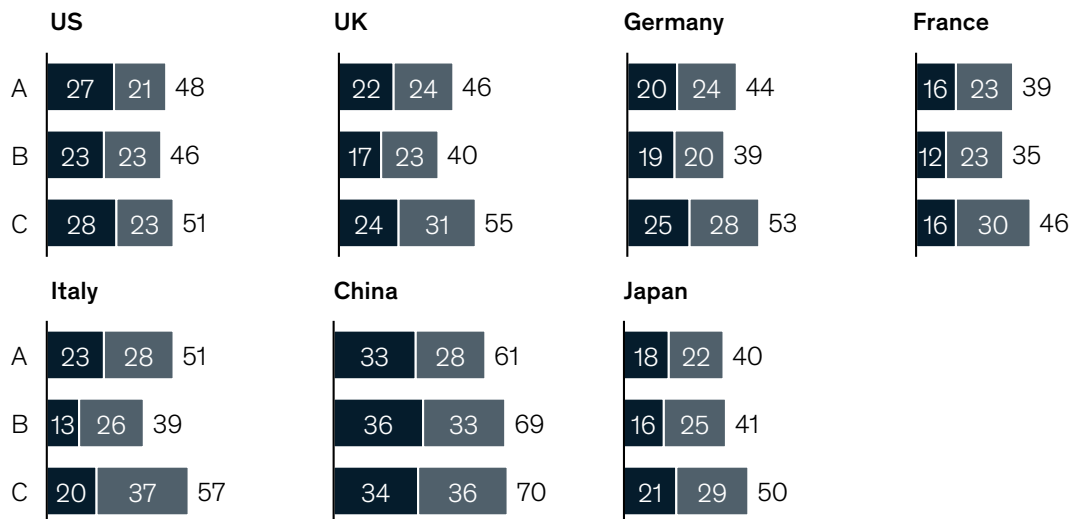
Percent of respondents; delta from last vehicle purchase, percentage points



Interest in digital/contactless sales and service^{3,4,5}

Percent of respondents; delta from last vehicle purchase, percentage points

- A – Online buying: Buying a new vehicle online
 - B – Contactless sales: Buying a vehicle completely contactlessly
 - C – Contactless service: Contactless service from dealership or repair shop
- Would definitely consider or be very/extremely interested
 - Would (probably) consider or be interested



1. Q: When you LAST purchased or leased a car/had a car serviced, which of the following sources/channels did you predominately use?
 2. Q: For your PLANNED/NEXT vehicle purchase/lease/car service, which of the following sources/channels would you prefer to use?
 3. Q: Would you consider purchasing or leasing a new or used vehicle completely online?
 4. Q: How interested would you be in the following services?
 5. Q: How interested would you be in contactless service options/contactless car sales?

Source: McKinsey Global COVID-19 Automotive Consumer Survey (May 9-17, May 27-29, June 16-18, July 15-17, September 2-4)

1.3 Customers are looking for an adapted dealer role in a new multi-channel landscape

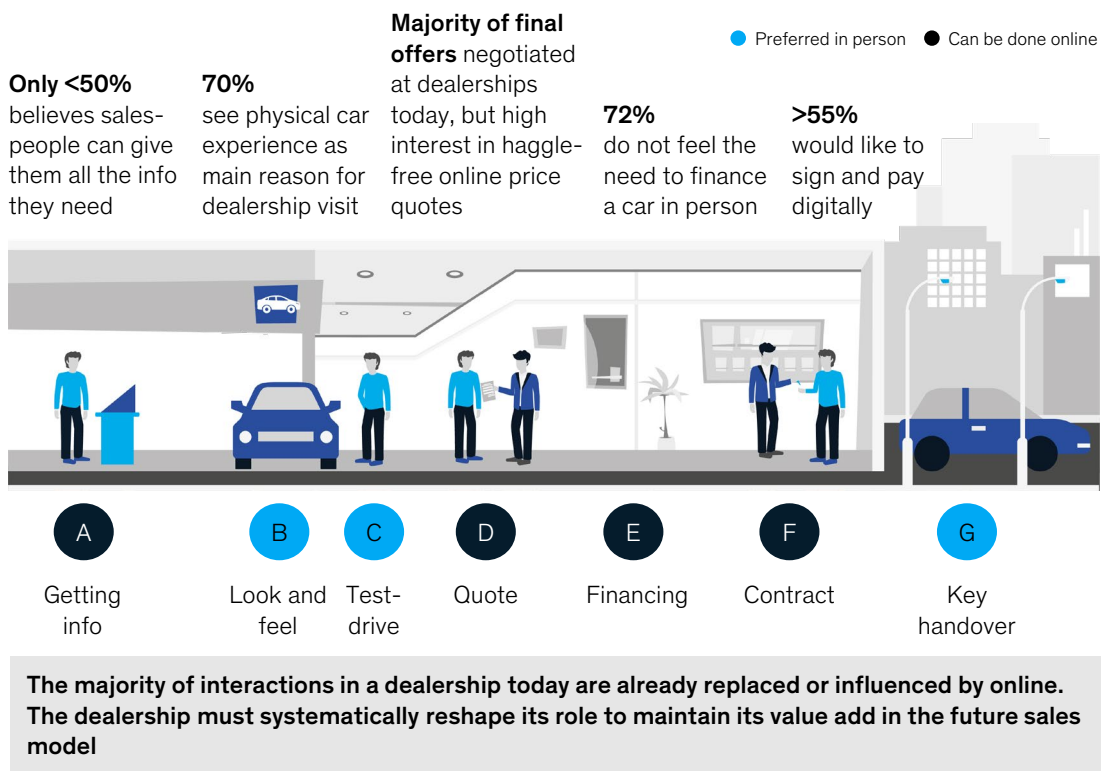
Despite the ongoing importance of the dealership within the car-buying journey, our research shows that around 30 percent of customers today no longer use the dealer or do not see its clear value add. Moreover, most respondents would switch dealers for more convenience or a better price, and around 40 percent say they don't need to see their dealer face to face for repairs – they would be happy to have their car picked up and dropped off. These findings clearly indicate that the role of the dealership needs to change. But on the contrary, more than 40 percent of respondents still agree that the role of the individual sales consultant was decisive in their purchase and would like to stay in close contact with their dealer/car manufacturer after purchase.

To navigate these different perceptions, dealers need an even stronger focus on value-adding activities to stay relevant and establish ever closer relationships with their customers. Investing in enhanced customer analytics, for example, provides the insight and context that allows dealers to better serve customers wherever they are along their car-buying journey. Our research shows that 70 percent of consumers see the ability to physically experience the car as the main reason for a dealership visit. At the same time, less than 50 percent of consumers believe that the sales consultants can give them all the information they need, and 72 percent do not see the need to finance a car in person (Exhibit 4).

When thinking about future car purchases, our research showed that 41% of customers expect dealers to be a superior source of knowledge and product expertise, especially in the areas of connected services, driver-assistance features and

Exhibit 4:

Need for change – the role and business model of the dealership needs to change in the new retail reality to reflect customer preferences and maintain its true value add in the retail chain



Source: McKinsey Automotive Retail Consumer Survey (US, China, and Germany)

electrification. They also want to be able to access on-site information related to internal combustion engine (ICE) alternatives (e.g., battery EVs and hybrid EVs) and other vehicle technology. This can be achieved either through talking to experts (e.g., product geniuses) or via information terminals that allow customers to access detailed information independently, at their own speed, and in a non-sales environment.

In summary, our research about key elements for the future role of dealerships shows that dealers need to evolve from primary touch points for contract signing and service towards a stronger role as trusted advisors. They should also aim towards becoming no-pressure product experience centers and fully integrating into the broader omnichannel journey.

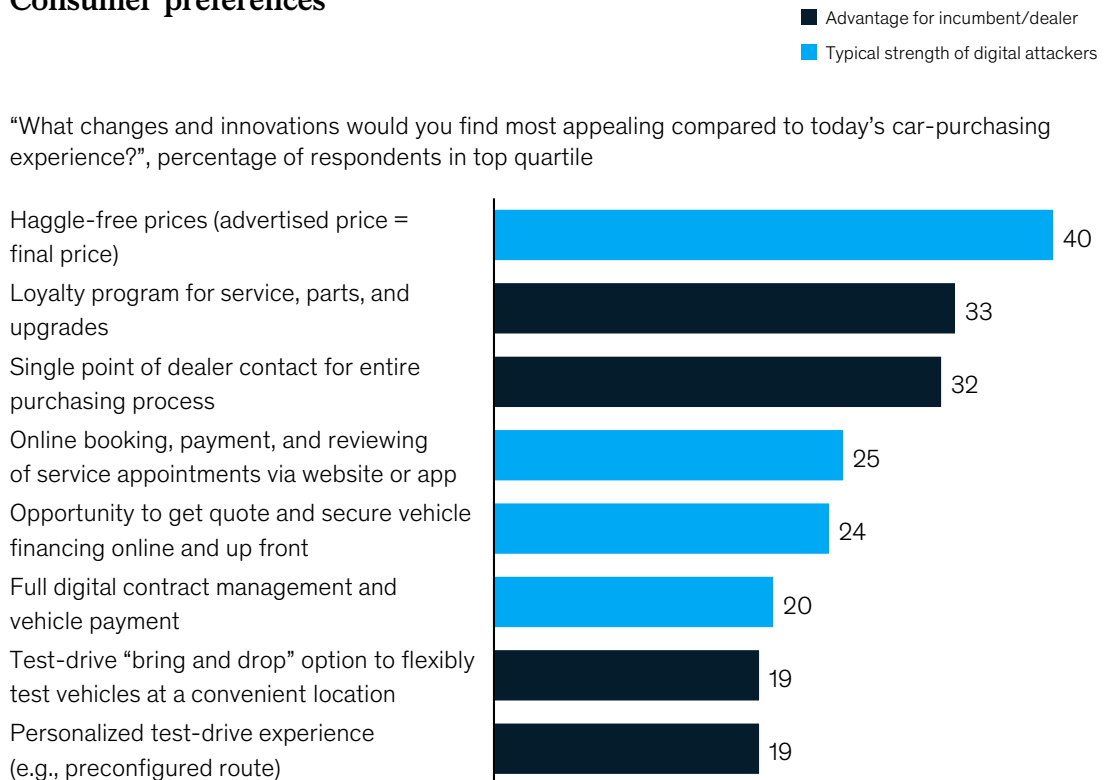
In addition, car buyers prefer a transparent and stress-free experience – less so the “negotiation process” common at dealerships today and instead more so a transparent form of pricing like they are accustomed to in other industries. In this regard, progress looks like a shift from “black box” pricing to “transparent transaction prices.” 40 percent of respondents are strongly in favor of haggle-free pricing, and the majority would like to see the same prices online and offline. In addition, many customers rate the digitization of major steps in the car-buying journey and a single point of dealer contact as very important improvements to enhance the car-buying experience (Exhibit 5).

>90%

rate the availability of a tool to facilitate model specification and price comparisons as at least “somewhat important.”

Exhibit 5:

Consumer preferences



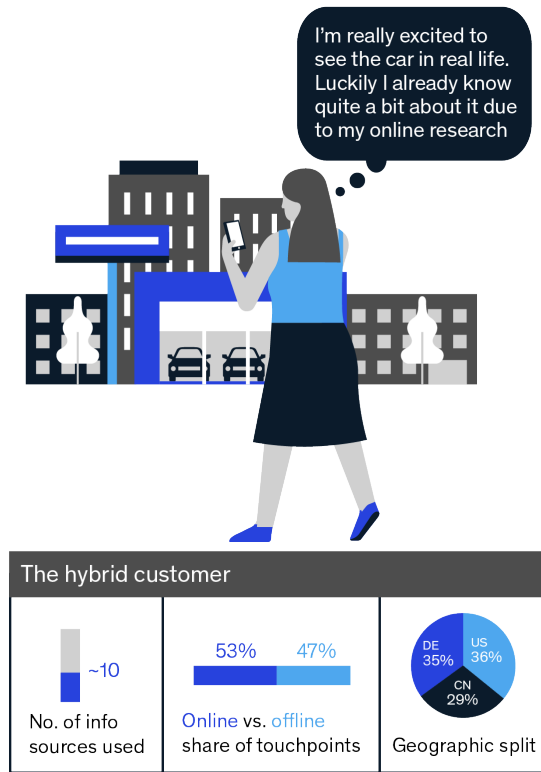
Source: McKinsey Automotive Retail Consumer Survey (US, China, and Germany)

1.4 Globally, four major and distinctly different groups of car buyers can be identified

Based on our research, we have identified four distinct groups of car buyers with very different characteristics that exist globally (Exhibit 6). We focused

Exhibit 6:

Characterization of core car-buyer archetypes



on these groups in Germany, the US, and China. The preferences that characterize these segments lead to a variety of customer journeys and potential touch points that automotive retailers must cater to. In this context, we observe high polarization when it comes to a preference for either innovation or the status quo.

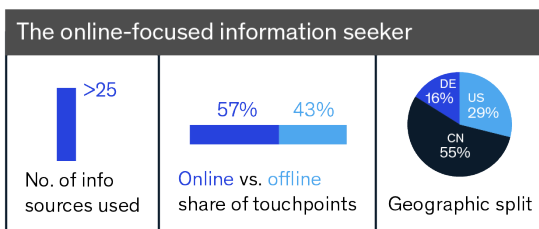
“The hybrid customer”

Hybrid customers account for one-third of car buyers and are characterized by an equal mix of offline and online behaviors. They approach dealers for information and testing, but they also make use of online information sources, such as OEM/dealership websites or car comparison portals. On average, their car-buying journey consists of eight to ten different touch points. Hybrid customers tend to live in suburban areas, and seek a casual, knowledgeable, intuitive, and fun buying experience. For gathering information online and the actual purchase process, they prefer the OEM itself over dealerships or third parties; hybrid customers do not heavily rely on traditional dealer structures. COVID-19 circumstances are likely to increase the share of hybrid customers sustainably as familiarization with online channels is accelerating across demographics and further customer groups.



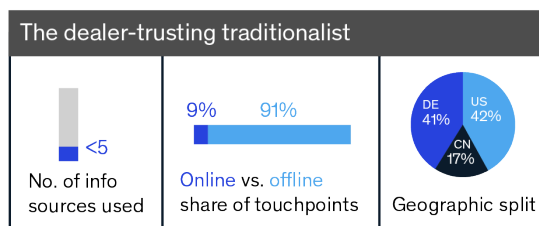
“The online-savvy modernist”

This segment makes up another third of the car-buying population and is equally represented across geographic regions. These customers have a clear online focus with very limited dealer involvement. Such customers not only search online for car information but also strive to complete all other car-buying activities online, such as financing and contract signing. They want a fast and easy car-buying process and consult six to eight different touch points along their journey. Online-savvy modernists are mostly young, tend to live in large or medium-sized cities, and strive for a fast and innovative but predictable buying experience that can be characterized as “easy and everywhere.” The majority have already decided on a model before their dealership visit and are largely using the dealer to close the deal. They prefer third parties when gathering information online as well as for the buying process. COVID-19 impact is expected to be moderate as customers are already fully into online channel usage.



“The online-focused information seeker”

Online-focused information seekers account for 15 to 20 percent of the researched population and are particularly well represented in China. They are characterized by a clear online focus during the information-seeking phase, but they seek consultations with dealers throughout the whole car-buying process. Their strong need for information is reflected by more than 25 different touch points throughout the journey. Online-focused information seekers are fairly young, live in larger cities, tend to buy premium vehicles, drive longer distances, and enjoy a unique, cutting-edge, and innovative buying experience. Despite their online affinity during the research phase, they want to stay in touch with their local dealer after purchase. Like hybrid customers, they prefer having the OEM itself as their online partner for information as well as during the buying process. Covid-19 impact is expected to be limited as customers are real car enthusiasts that heavily have been using online channels already for their search and can now easily leverage contactless and remote buying services of their local dealers.



“The dealer-trusting traditionalist”

This customer type accounts for around 20 percent of all car buyers, made up mostly of the older population in the US and Germany. These customers view the dealer as both their key source of information and a partner throughout the car-buying process. They engage an average of only five touch points throughout their journey. These customers are reluctant to go online and are very loyal to their local dealership. Dealer-trusting traditionalists tend to be older, live in the suburbs, drive fairly short distances, and strive for a personalized, high-touch buying experience. If at all willing to buy online in the future, they would prefer their dealer to be their online partner for information as well for the buying process. Dealer-trusting traditionalists are potentially affected in two ways by current COVID-19 circumstances: they must either adapt to using online channels (thereby becoming part of another customer segment) or temporarily pause their purchasing activities.

While the four groups of car buyers exist globally, there are several significant differences among them in the three countries – above all in China (Textbox 5).

Textbox 5:
Key characteristics of car buyers in China, Germany, and the US



China

In China, the share of “online-focused information seekers” is particularly strong – and together with “online-savvy modernists,” accounts for over 55 percent of the total population surveyed. However, within those online-inclined customer groups, the share of online sources is on average 10 percentage points lower compared to Germany and the US.

“Online-focused information seekers” have a closer relationship to the dealer than in the other markets and have the highest satisfaction rates across all touch points. Compared to Germany and the US, this customer group has high loyalty, also in aftersales phase, and customers are equally present in the premium and volume segments.

“Online-savvy modernists” are happier with their dealership in China than they are in Germany or the US, and China is the only market where customer satisfaction actually increases in the purchase phase.

However, overall, “hybrid customers” are still the largest group in China – they are less loyal to their dealers than they are in other markets. They have the lowest score for “would like to stay in touch with their dealer,” and the highest score for “use independent repair shops.”



Germany

Both the composition of customer groups and customers within those groups lean towards traditional themes and are slower to adapt to innovation and change compared to China and the US.

Germany has the lowest share of “online-focused information seekers” and the highest share of “dealer-trusting traditionalists” compared to China and the US.

Within “dealer-trusting traditionalists,” customers are even more loyal to their specific dealer and their specific brand compared to other markets. For example, they have the lowest share of online touch points along their journey (7 percent in Germany versus 8 percent in China, and 12 percent in the US), the highest score for “option to meet dealer” in the online sales process, and the lowest scores for “would go to a different dealership for convenience” and “would switch brands for a personalized experience.”



US

The composition of customer groups is rather traditional; for example, there is still a large share of “dealer-trusting traditionalists” – but customers within those traditional groups are up for change.

The US has the highest relative share of using online sources within each customer group, even though customer group composition does not lean so much towards “online” like in China; for example, across customer groups, the US has the highest share of “had already decided on model before dealership visit” and the highest score in “would switch brands for a personalized experience.”

2 Cost pressure fueled by ACES trends and digitization is accelerating the retail model transformation

The ACES trends (autonomous driving, connectivity, electrification, shared mobility), a growing shift towards online sales, and omnichannel buying will have a major impact on the automotive retail landscape as we know it. COVID-19 is further accelerating those trends that were already underway but had not yet been widely adopted – these will likely become the new normal. While we see diverging expectations towards the speed of change,

most players acknowledge that they need to prepare now. As an early sign of this, we observe many players increasingly experimenting with different retail formats, testing online sales channels in selected countries, or piloting direct sales models. Regarding automotive retail, we will discuss four of these trends in more detail, which are online and direct sales, shared mobility, connectivity, and electrification (Exhibit 7).

Exhibit 7:

The business model has to adapt to compensate for retail trends

Indicative

Impact of trends on dealers – “do nothing”

	2020	2030	Trend impact end state, 2030
Online and direct sales			
New			Reduced volumes, handling fees, and margins
Used			Pricing and offering transparency
Aftersales			Pricing and offering transparency
F&I ¹			Increased finance penetration, but partly from 3rd parties
Cost			Digital back office
Shared mobility			
New			Reduced demand for car ownership
Used			Fewer private units in operation
Aftersales			Professionalized fleet services
F&I			New revenue streams: subscription services
Connectivity			
New			Better CRM and end-of-term lease management
Used			–
Aftersales			Less body repair work, more expensive parts
F&I			New income via connected services likely to go mostly to OEMs
Electrification			
Aftersales			Longer maintenance cycles, less maintenance parts and services
Cost			Parallel ICE/EV competence drive costs

OEMs and dealer groups need to take a strong role to lead and coordinate the transformation while also reinventing themselves

¹ Finance and insurance

Source: McKinsey Automotive Retail Practice

Online and direct sales

Initial signs of online sales picking up speed in line with shifting consumer preferences are closely monitored across the entire automotive sales ecosystem given the potential impact on dealers' already slim margins. At the same time, OEMs face high dependency on their existing networks, which forces all players to make conscious and integrated decisions to shape the future now, as the status quo becomes more and more challenging.

Implications

For OEMs:

Online sales enable OEMs to reduce their distribution costs and provide more direct access to the customer. In addition, online sales allow for better steering of transaction prices end to end, which might well prove to be the true game changer in an industry that is still spending 10 to 20 percent of its overall revenue on incentives. On the contrary, OEMs still rely heavily on their networks' ability to smooth out fluctuations in demand and absorb on-top volumes in quarter-end/year-end whole-sale pushes and are still willing to tie up huge amounts of capital in physical outlets and vehicle stock. For these reasons, a balanced solution must be defined – potentially also dependent on regional differences.

For dealers:

Given consumer preferences and the benefits for OEMs, dealership volumes will be affected in the medium to long term for both new- and used-car sales. Depending on individual dealership size or dealer group strategy, partnering with OEMs or establishing their own online channels and closely connecting their physical and online presence will become more important. Additionally, the dealership network will maintain its importance for offline touch points throughout the customer journey. In turn, this allows dealers to charge for fulfillment and aftersales activities. Proving excellence in fulfillment and aftersales activities will be crucial for negotiating fees with OEMs.

For customers:

E-commerce in automotive retail fundamentally changes current purchasing behavior, allowing car buying "with just a click" and increased transparency on vehicle pricing and vehicle availability. While addressing the key customer pain points of negotiating a final price, securing vehicle financing, or choosing add-ons, paperless signing is still perceived as a hurdle for over 50 percent of customers. If implemented well, customers can benefit from higher transparency and comparability as well as professionalized dealership organizations.

Shared mobility

The continuing and increasing trend towards shared mobility impacts the automotive retail industry in several fundamental ways: Shared mobility requires a change in vehicle type (e.g., multipurpose vehicles) and a change in the type of offering (e.g., OEMs as mobility service providers). In the longer term, shared mobility will likely also lead to slower growth in the new private-car business. However, through at least 2030, expected growth for new private-car sales will still outpace the total impact of shared mobility.

Implications

For OEMs:

Addressing and actively embracing shared mobility as a rising business opportunity beyond traditional retail also means developing various offering strategies that not only differ by region but also by country and even by city in order to account for mobility demand differences in rural and urban areas. As the playing field is still rather embryonic, OEMs are additionally faced with a multiplicity of new ventures and a huge variety of innovative offering models. Finding a balance of in-house offerings and local partnering will be key to comprehensive success.

For dealers:

Fleets of independent shared-mobility providers will largely be sourced directly from OEMs and, as such, cause a negative effect on dealers' new-car sales. Moreover, shared mobility will negatively impact the dealers' aftersales business as mobility service providers (OEM-owned and independent) gain more negotiation power and can move sizeable volumes from one dealer to another, which will put pressure on margins. However, the impact on dealers will, to some extent, depend on geographic location. As large dealer groups do business in rural and urban areas and across borders, they will need to transform themselves into mobility service providers, working in collaboration with OEMs or establish their own alternative mobility offerings.

For customers:

Depending on the region, many customers today already experience a variety of shared mobility offerings. In both China and the US, the e-hailing market is monopolized by one or two players, whereas the European market is highly fragmented, with offerings from both OEMs and new ventures – partially due to different legal structures in Europe. Since OEMs and dealers need to move in various directions to fulfill varying demands, new private-car customers can also expect an increasing portfolio of mobility offerings, e.g., subscription models or turnkey solutions.

Connectivity

Today, less than 20 percent of vehicles on the road are equipped with integrated connectivity services, and associated business models have not yet developed as expected. However, the importance of a connected road network for vehicles has been growing continuously and the percentage of consumers ready and willing to change car brands for better connectivity has also doubled over the past few years to around 40 percent today.

Implications

For OEMs:

A large share of new vehicles sold provide some kind of connectivity. In the premium segment, the majority of automotive manufacturers have already installed fully connected infotainment systems in all their new vehicles. However, bringing a high level of connectivity to mass-market vehicles will require greater cooperation between OEMs and telecom providers. The latter need to offer their infrastructure and licensed spectrum, and OEMs and suppliers need to create the hardware compatible with the technology. The value chain is transforming into an ecosystem where the relationships between the actors are still uncertain.

For dealers:

Dealers mainly profit from connectivity in three ways: participation in connected services revenues, additional insights on driving behaviors, and an increased transparency into maintenance needs through connected vehicle sensors. However, to benefit dealers often must partner with their OEMs that typically control the access to the required data.

For customers:

Already today, owners of full-fledged onboard infotainment systems enjoy features like suggestions for nearby consumer facilities (e.g., restaurants, hotels) or adaptive navigation systems. With an increasing share of vehicles being part of a larger telecom infrastructure, new services can arise and uncover further benefits (e.g., free parking spot or optimized route guidance).

Electrification

The percentage of vehicles sold with electric drive-trains today is around 3% globally, but given technological advancements and tightening CO2 regulations the industry aspires to launch over 400 new electric vehicle models until 2025. The magnitude of this supply-side shift is expected to at least triple global electric vehicle sales within the next two to three years making it a key topic for automotive retailers in many countries worldwide.

Implications

For OEMs:

OEMs themselves are facing huge investment needs for vehicle electrification combined with EV margins that are not expected to achieve the current margin level of ICEs anytime soon. Thus, OEMs are scrutinizing all major cost buckets for savings potential including adaptations to their current sales model. In addition, automakers are under high pressure to meet their electric vehicle sales targets to avoid penalties from tightening CO2 regulations.

For dealers:

Aftersales revenues and profits will come under big pressure, as EVs have fewer moving parts and need less maintenance. For example, oil changes are currently a huge profit driver that will ultimately dissolve for dealerships. In the medium term, dealers will additionally face the complexity and cost of handling sales and service for both EVs and ICEs.

For customers:

Recent announcements and portfolio perspectives disclose a large upcoming variety of EVs across premium and mass-market brands. As competition for EVs is steadily growing, customers can expect EV prices to become competitive with ICE prices sooner rather than later. Already today, price levels in China for mass-market EVs and ICEs have equalized. As the EV driving experience fundamentally differs from the ICE experience and might not be associated with any particular brand, customers at the beginning will likely be faced with a significant selection complexity when shopping for EVs.

3 Five future retail-model archetypes and their implications for OEMs and dealers

Staying ahead of the current disruptions in automotive retail will require more of OEMs than simply moving their operations online. The rise in car buyers' service expectations and the growing diversity of their preferences, plus the nonlinear speed of change triggered by the ACES trends, increase the difficulty for OEMs and dealers to transform their retail model.

Considering this, our research indicates that OEMs' strategies for the future need to become much more diverse and will diverge from the current retail model to an extent not seen before. We also observe a high ambivalence among many players: On the one hand, all players feel the need to act fast due to the long implementation times of any network-related changes as well as the distinct differentiation potential that the right move offers on both the cost and customer experience side. On the other hand, many OEMs struggle with taking bold, strategic steps into the unknown in a situation where many of the trends still feel new. The number of new retail formats is an example of the high level of experimentation.

To provide a comprehensive perspective on the strategic options that OEMs can consider in their strategic road mapping, we have developed a set of five archetypes of future retail strategies: 1) OEM building on dealer as entrepreneur, 2) Dealer as execution agent, OEM in control of new-car sales, 3) OEM fostering competition, dealer as exchangeable execution provider, 4) OEM owning retail, and 5) OEM handing over to importer. These archetypes were derived based on in-depth research and many discussions with leading players on their own future retail strategies and therefore represent a comprehensive synthesis of the current state of thinking.

It is also the case that a combination of approaches may be best for any given OEM or dealer. Specifically, a region-by-region and brand-by-brand approach to a future retail strategy means that a single OEM or dealer may adopt two or more of the archetypes defined above. Our research highlights the different nature of automotive markets in terms of maturity regarding ACES trends, legislation for direct sales, and affinity for online sales – and these determine not only the speed, but also the direction of change. But OEMs' market positions also differ strongly by region, as do the ecosystems they have built. Taking this into account for any strategic deci-

sion will be key for success and therefore requires a regional approach instead of a global one.

As current circumstances due to Covid-19 are accelerating relevant trends (e.g., significantly increased online activities), the need to rethink retail strategies becomes even more prevalent and timely piloting the one or another approach will be crucial.

Exhibit 8:

OEM building on dealer as entrepreneur



3.1 OEM building on dealer as entrepreneur

The “dealer as entrepreneur” strategy (Exhibit 8) aims to keep the dealer as a key element in the overall retail network while introducing an online direct sales channel alongside it. To help the network offset the negative impact of volumes shifting online, both dealers’ top and bottom lines need to be strengthened – through pulling a range of opex and capex levers and sharing future upside potentials through, for example, new revenue streams like over-the-air updates among the partners. In order to achieve this, three steps need to be taken:

a) Differentiate physical formats: Reducing physical footprint costs is key for dealers in a scenario that channels more than 10 percent of sales towards the OEM directly. While this appears to be an “old” topic in an industry that has experimented with new sales formats for the past ten or more years, we believe that this model still holds potential. For it to be suc-

cessful, a shift of focus is needed from OEM-run, mostly expensive flagship formats (e.g., experience centers) to lean and efficient, mostly dealer-run formats (e.g., service factories, pop-up stores, and small city stores) to attract new customer groups.

b) Drive network consolidation: For this to be successful, the overall network needs to show a high degree of (owner) consolidation, as size and the ability to manage entire and coherent areas become critical requirements for dealers to fully leverage the advantages of differentiated formats, for example.

c) Establish clean-sheet dealer processes: To further reduce running costs for dealers, OEMs and dealers together need to pull all available levers to streamline processes and lower administrative burdens – e.g., through unlocking the potential of “digital dealership,” integrating systems further (across ordering systems, online configurators, and wholesale/retail CRMs), and focusing steering on results instead of processes.



Prerequisites

This approach builds on a strong market position that allows for dense physical coverage even with a sizeable amount of volume moving online. Furthermore, it requires that dealers, who manage multiple outlets, have sufficient firepower to take the necessary investments in the future. In addition, it is essential to establish a clear commercial and governance model that allows dealers to participate in the online direct sales to align incentives across online and offline.

Implications

For OEMs:

The key objective of this strategy is to strengthen and sustain the dealer network, while at the same time, take advantage of an online direct sales channel. Thus, it will put the OEM in a strong position to steer transaction prices to reduce incentive spend by, for example, adjusting tactical campaigns quickly based on early indicators from online sales. Additionally, it opens opportunities to save resources in network management and steering, as fewer but more professional partners are taken care of.

For dealers:

For strong dealer groups, unlocking the full potential of opex and capex reduction will be a key success factor. At the same time, increasing their profit share in other business areas such as service and used cars will be critically important. For large dealer groups, which have the ability and investment power to take responsibility for entire areas, this strategic option will be an opportunity to grow and gain influence. Smaller dealerships might only remain viable in rural, sparsely populated areas.

For customers:

This strategy is set up for delivering an enjoyable and truly omnichannel customer experience. For example, it can allow customers to easily get in touch with the brand online or via other specialized channels, and ensure a pressure-free experience with transparent pricing across the entire network. However, to achieve this, both the OEM and dealer need to ensure seamless integration of their respective activities for customers as well as coordination within a network of differentiated channels.

This approach builds on a strong market position that allows for dense physical coverage even with a sizeable amount of volume moving online.

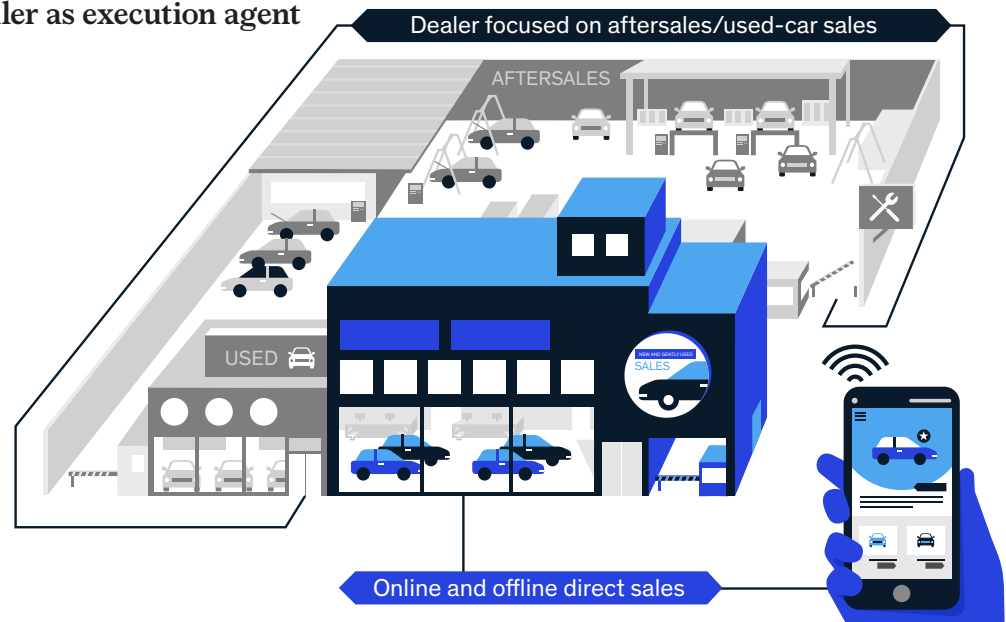
3.2 Dealer as execution agent, OEM in control of new-car sales

The “dealer as execution agent” approach (Exhibit 9) sees the OEM taking full control of the new-car-sales side – while building on the existing dealership network. The dealer is transformed into an agent for the sales process, with the OEM effectively taking over new-car sales end to end, including stock hold-

ing and transaction pricing. The dealer, in turn, only fulfills the transaction based on directions set by the OEM and receives a fixed handling fee for this instead of a share of the revenue. With this approach, the OEM is going in the opposite direction as compared to the first archetype: limiting the dealer’s role as entrepreneur and driving the system more centrally instead.

Exhibit 9:

Dealer as execution agent



Prerequisites

This approach is viable especially in more fragmented networks, where direct customer access for OEMs is key, online sales will make up a considerable share of new car transactions and dealers lack the scale to truly transform their business by leveraging different physical formats. Given the shift from a wholesale to a retail model, OEMs will also need to have or establish alternative (direct) channels, such as rental and fleet businesses, in order to maintain their ability to capture on-top volumes in the market to avoid piling up stock in volatile markets.

However, given the large transformation of the dealership’s role from an independent business with slim margins but high degrees of freedom into an agent dependent on the OEM and working on stable income streams with limited up-/downside potential, this approach will likely see at scale implementation times of over five years.

Implications

For OEMs:

While this model allows OEMs to closely integrate the online and offline worlds and steer transaction prices end to end across channels, it also requires them to invest a substantial amount. This is largely because of what is needed to take over the additional

capital requirements of new-car sales – including responsibility for stock holding, tactical wholesale push activities, and balancing of demand peaks.

For dealers:

In this archetype, dealers are focused on used-car sales and service and are thus unburdened from the inherent risks of new-car sales. However, they also see their role changing considerably, as they lose their ability to differentiate themselves through pricing, thus becoming even more dependent on the OEMs. This model provides dealers more stable, yet overall lower returns and requires dealers to further downsize as well as to increase operational efficiencies. In addition, it could change the way how capital markets value dealers – making it especially difficult for larger dealer groups to justify this move to their investors.

For customers:

This approach provides a truly seamless customer journey built around an integrated customer interaction model with consistent and hagggle-free offers both online and offline. However, it remains to be seen whether dealers’ engagement and willingness to excite customers in new-car sales will be lower if they are reduced to mere agents.

3.3 OEM fostering competition, dealer as exchangeable execution provider

Even more radically, the “dealer as exchangeable execution provider” strategy (Exhibit 10) aims to reset OEMs’ dependency on their dealership networks by building a strong online direct sales channel, complemented by a set of alternative players for each of the remaining physical touch points along

the customer journey. This may include leveraging rental companies for test-drives, delivering vehicles ordered online, certifying third-party repair shops to also maintain healthy competition in the service business, or even selling cars and mobility options through non-industry brokers, such as banks or insurance companies, offering a stationary network for handling fees.

Exhibit 10:

OEMs driving competition and partnering with selected 3rd parties



Prerequisites

This model is tailored to markets with a high possible share of direct online transactions where physical touch points play largely a complementary role to support the online sales process and aftersales services can be offered by independent partners. To be successful, OEMs need to diligently prepare alternatives early on – as dealers will likely take decisive actions to defend their business or change the franchise as soon as they are confronted with the new realities. Having their own strong retail presence may help mitigate the downsides and risks of such a transformation. Finally, the customer value proposition across the different touch points needs to reflect the overall positioning of the brand and is therefore likely to be more fitting for volume brands. Alternatively, this model can also be leveraged as a quick way of entering new markets without an existing dealership network in place to complement a strong online sales channel.

Implications

For OEMs:

While this model vastly increases OEMs’ ability to steer the network and slash costs through enforced competition, it also deprives them of the ability to leverage their networks for wholesale activities. The loss of this lever effectively forces OEMs to move additional volumes into other channels, such as fleet or rental, or move entirely from a push to a pull (only) model. It also enables OEMs to quickly enter new markets in a lean and cost-efficient way – without building a network of franchise dealers first. In order to succeed, however, OEMs need to have a clear focus on profitability in addition to volumes to remain attractive as franchises for their partners and develop strong coordination skills to successfully manage a broad network of diverse partners.

For dealers:

This model is effectively the ultimate stress test. Dealers either hand back their franchise or transform it radically into a cost-efficient service provider that stays competitive against specialized players, such as rental companies or independent aftermarket players.

For customers:

This approach, centered around online sales, offers customers a low-cost, no-frills experience with low transaction prices and a clear value-for-money proposition. The customer journey will be based on one integrated digital backbone, enabling seamless navigation of a journey with multiple players along individual touch points.

3.4 OEM owning retail

The “OEM owning retail” approach integrates all retail activities into the hand of the OEM and implies the highest level of control and customer access, but also high investment needs in its own physical outlets. While we see traditional OEMs moving away from their own retail activities, new players like Tesla or NIO are leveraging this approach to build a lean and asset-light network of highly differentiated physical stores around an online backbone.

Prerequisites

In the short term, this model is primarily viable for new players with no existing network structures or traditional players entering new markets.

Implications**For OEMs:**

This model requires OEMs to make heavy investments into brick-and-mortar retail locations. To make this feasible, they will need to grow online sales quickly in order to reduce the capex requirements of building and running a dense network of physical outlets.

For customers:

If managed successfully, this approach could enable a distinctive and seamless experience for customers – in turn, putting OEMs in the perfect position to gradually move to an online-only sales model. Additionally, fully owned sales and service formats provide a more tailored or even personalized experience for customers.

3.5 OEM handing over to importer

The “handing over to importer” model is the opposite approach of “OEM owning retail.” Here, the OEM moves out of local retail and wholesale activities, handing them over to a professional partner instead. The importer, which is typically comprised of large dealer groups, steps up and manages the entire country or region end to end, within the boundaries of the agreement reached with the OEM.

Prerequisites

This model is mainly relevant for smaller markets, such as the Baltics. Alternatively, it provides an opportunity for OEMs with subcritical market shares in large markets to retain their presence at minimum fixed costs.

Implications**For OEMs:**

In light of the increasing complexity of the automotive sales and service ecosystem, this model enables OEMs to focus on fewer markets and, at the same time, maintain professional management of non-core markets. However, it also deprives OEMs of the ability to adapt to short-term demand fluctuations by moving volumes between markets, as importers will demand high discounts for any on-top volumes.

For dealers:

For large dealer groups, this model is highly attractive as it offers them stable margins at scale, without engaging in a dealer-by-dealer fight for incremental profit. This approach also allows them to capitalize on their core strength: a high degree of professionalism in delivering sales and service. We are already seeing large dealer groups actively seeking to engage strongly in this type of business.

For customers:

In this model, the customer moves further away from the OEM, with the importer acting as an additional intermediary. However, this will likely not be perceived as a large change from an end-consumer perspective.

Each archetype offers a distinct set of principles, prerequisites, and implications, but it is also the case that a combination of approaches may be best for any given OEM or dealer. Specifically, a region-by-region and brand-by-brand approach to a future retail strategy means that a single OEM or dealer may adopt two or more of the archetypes defined above, depending on the wide-ranging nature of automotive markets in terms of maturity regarding ACES trends, dealer franchise legislations, and affinity for online sales. Additionally, OEMs’ market positions vary widely by region, and so do the ecosystems they have built. Taking this into account for any strategic decision will be key to success and therefore requires a regional instead of a global approach.

4 Outlook – getting started with the automotive retail transformation

We see a clear shift away from the current sales model with opaque pricing and complicated offerings towards a new expertise-driven retail model where advice, experience, and transactional transparency for customers are the main foci.

For OEMs and dealers, the specific strategic decision regarding which archetype to pursue to address this shift will vary according to each organization's starting point, but the decision will likely determine the future success of the entire company; any step in the wrong direction will be difficult or even impossible to correct.

Textbox 6:

Interview with Adam Stewart, Google VP of Automotive, Consumer Goods, Government, and Entertainment

Big data and advanced analytics will offer new opportunities for auto retail in the future. Which exciting use cases do you see/are you currently working on?

We're shifting from a mobile-first world to an automated first world. If you take medical care as an example, the concept of a primary family doctor was substituted by specialized clinics and hospitals, and through that, patient information and history became fractured and incomplete. Today, healthcare start-ups are taking a giant leap forward in bridging this gap in patient data, providing a singular view of a patient's health history to conduct all sorts of interesting things from DNA sequencing to disease prevention.

If you link this to the auto industry, it used to be that local brand marketing drove us to our trusted dealership to buy a car. Today, consumers are driving their own unique purchase journeys across multiple channels. That innate understanding dealers had about the customer is being replaced with questions about what really drives our customers' purchase decisions. As I shared earlier, customer data lives across different tiers and silos, but as brands start to connect their data, they can then rely on machine learning to recognize patterns in the data, predict intent, and create more helpful, seamless customer experiences. This will be critical for the auto industry in order for it to compete with more nimble start-ups and tech companies that already have a holistic view of the customer from research, to consideration, to purchase.

At Google, we're helping auto marketers utilize machine learning to work faster, work smarter, and drive more efficiencies in their marketing.

For example, our machines can take customer signals – such as time of day, device, or previous searches – and apply those signals to a customer's next touch point, such as watching a video on YouTube.

What is your perspective on e-commerce with regard to automotive? Will we buy cars online in the future? What would this look like?

While some car purchases will shift online – there are models that already exist – that doesn't mean the dealer experience will disappear. Similar to how traditional retailers, like Best Buy, have had to rethink their business models as transactions have moved online, dealers will need to evolve their offerings as well. They'll have to find ways to add value to the overall customer shopping journey by creating more personalized experiences and by making it easier for the customer to get the information he or she needs. This shift will likely result in more partnerships between auto brands and tech companies as brands increasingly rely on native digital players to help them build more seamless customer experiences.

How do you see the future role of the dealer in automotive? And what role will Google play in auto retail?

Dealers will continue to play a significant role in the auto industry for years to come; however, the most successful brands will be those that figure out how to connect their data across tiers by establishing close partnerships. Google must continue to connect dealers to the right customers in the right moments through machine learning, as well as help dealers understand the true value of their marketing by tying it back to business results (i.e., store visits and eventually store sales).

While the details of the approach will vary between brand and region, what is clear across the board is that inaction is not an option. Any hesitation to move forward at all – i.e., a decision to maintain the status quo – will be equally dangerous. COVID-19 is accelerating the transformation, changing consumers' buying behavior and openness to online sales, while at the same time revealing the weaknesses of today's sales model, including the need to significantly reduce costs. Thus, a commitment to retail innovation is a must, and the time to act is now. No matter where they are today – along the automotive value chain or around the world – all OEMs and dealers can take immediate action in five areas to move their retail models forward:

Define strategic focus areas and create alignment within the organization

Before moving ahead, automotive OEMs need to decide on their future offering a retail model best suited to each brand and each region. Setting such strategic guardrails is essential for a successful transformation and provides a clear future direction for the entire organization as well as the ecosystem of partners. Only such clarity will allow them to properly define future roles, to effectively allocate investments, and to build new capabilities required for a successful implementation.

Investigate direct and online sales models

As outlined in the introduction of this article, several OEMs are establishing or expanding direct-to-consumer sales. Each of those OEMs is taking on new responsibilities and shifting its sales model from wholesale to retail. This often includes direct pricing, stock handling, and better customer access. Retail partners often remain involved, but in a new role as “agents” that receive a commission or handling fee for providing certain services. Additionally, nearly all major OEMs are running online sales pilots. Some include dealer involvement, some do not, but all are trying to test the consumer's appetite for online sales as a more direct and cost-effective form of sales. COVID-19 is accelerating the shift to online sales and requires OEMs and dealers to not only invest in the required infrastructure, but to more fundamentally align on the role of online sales as a key channel in the future sales model.

Consider transaction-price steering as a true game changer

Driven by consumer preferences, several OEMs are experimenting with haggle-free transaction prices both online and offline. Prominent examples are larger dealer groups such as Sonic Automotive, or premium brands like Lexus, where more than 10 percent of its US volume is sold at transparent prices under the Lexus Plus program. For online and direct sales models, pricing becomes an essential piece for steering omnichannel competition as well as retail volumes and requires new in-house capabilities and analytical approaches for OEMs, both in their headquarters and national sales companies.

Define measures and leaner formats to reduce retail costs

Establish a cross-functional team and cooperate with dealers to identify measures to reduce retail costs in terms of dealer standards, owner consolidation, and digitally enabled sales and new store concepts (e.g., experience centers and city stores) to complement traditional dealerships. Enhance the integration of offline and online channels into an omnichannel journey, where the offline vehicle experience and ordering are directly linked to one digital backbone that creates efficiencies and allows for a more personalized customer interaction.

Build the necessary capabilities and adapt the organization

Establish new roles in the sales process, such as product geniuses at dealerships, to create a simplified and pressure-free car-buying experience with deep product know-how, especially on EVs and connectivity. In addition, build up new capabilities for your online sales channel and country organizations that support a more customer-centric and direct sales process (e.g., lead management and pricing) and adapt roles and responsibilities accordingly to the new sales model approach.

Get started with the automotive retail transformation now

Develop your automotive retail strategy based on a region-by-region and brand-by-brand approach instead of a one-size-fits-all model. The retail strategy may represent one of the five archetypes or be a

Buckle up – the time for a disruptive change in automotive retail is now!

combination based on the different natures of automotive markets (maturity of ACES trends, legislation for direct sales, affinity for online sales, the OEM's respective market position, etc.). Customize your retail strategy jointly with value chain partners, e.g., large dealer groups, individual outlets, or importers. Develop joint business cases, e.g., using digital solutions and advanced analytics to double down on customer-centric and multichannel journeys, serve a wide range of individual customer preferences, and enable seamless information sharing between channels and retail partners.

Eventually, roll up your sleeves and get started – align on a clear strategy and launch dedicated pilot projects to accelerate the end-to-end implementation in a specific region or market together with your most important retail partners. Buckle up – the time for a disruptive change in automotive retail is now!

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Authors and contacts

Contacts

Jan-Christoph Köstring, Senior Partner, Munich
jan-christoph_koestring@mckinsey.com

Thomas Furcher, Partner, Vienna
thomas_furcher@mckinsey.com

Philipp Maximilian Lühr, Associate Partner, Munich
philipp_maximilian_luehr@mckinsey.com

Niels Dau, Associate Partner, Munich
niels_dau@mckinsey.com

Special thanks

Kilian Zedelius, Engagement Manager, Munich

Johannes Fühner, Fellow Senior Associate, Cologne

Matthias Schyma, Fellow Senior Associate, Munich

Bence Borosi, Senior Business Analyst, Budapest

Media contact

Martin Hattrup-Silberberg, Düsseldorf, +49 211 136 - 4516
martin_hattrup-silberberg@mckinsey.com

Layout and copy editing

Jörg Hanebrink

Heinke Maria Kunze

KJ Ward

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