

# Retail network – Radical changes ahead

*Dealers' future business models need to evolve towards a mobility-solutions hub*



Technological disruptions and new client needs are causing the automotive industry to evolve toward a model based on mobility services. Mobility on demand will become its greatest component, which will require transitioning from a product model to a service model. Therefore, dealers will need to develop new competencies and capabilities aligned with: (i) a service-centric model, (ii) smart fleet management, (iii) new sources of profitability and (iv) reinforcing customer relationship management and customer experience capabilities

## Radical changes ahead

The automotive industry is in a process of deep revolution, which will affect the dealer network and their current business models, among other things.

These changes are driven by technological disruptions and new client needs. In effect, both factors are moving the industry to a model of mobility services, for which mobility on demand (MoD) will become the greatest component.

Once autonomous and connected cars take off and electric vehicles become the main segment (mainly in urban areas, as mentioned in the *"The future of automotive mobility"* Arthur D. Little study), MoD will become a reality.

The study expects "a share of up to more than 50 percent electrified vehicles (full battery electric or hybrid) by 2030 – depending on segment." It also predicts "the rise of mobility platforms offering mobility on demand through vehicles either produced specifically for this purpose or privately owned and temporarily put into the mobility system by the owner." MoD involves transitioning from a product model to a service/client model, in which, based on the autonomous and connected car, dealers' service offerings should be adapted to customer needs.

Therefore, dealers will need to evolve their strategies:

From a model...	... to a model
I. A product-centric model...	... to a service-centric model
II. A B2C model...	... to a B2B model oriented to smart fleets management
III. High dependency on the after-sales profitability...	... to a need to develop new sources of profitability
IV. Traditional selling and after-sales competencies...	... to analytics and services developing

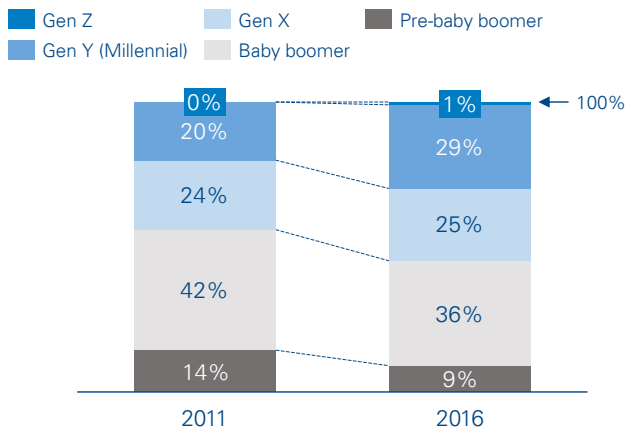
Source: Arthur D. Little

In short, dealers must develop new competencies and capabilities, giving rise to a new model of "mobility solutions hub."

### I. From a product-centric model to a service-centric model

Dealers currently follow product-centric models, in which sales teams manage demand generated from marketing, and after-sales teams react to client needs. In other words, they have a long way to go to achieve true customer-centric models.

## US share of light-vehicle retail sales



Source: J.d. Power PIN data

Today, the customer is losing interest in the idea of owning a vehicle, and looking for new ways to meet their transportation needs. This is opening their appetite for covering their mobility demands through a service model. However, it does not mean that they are not going to buy cars; it means that this will likely be a more pragmatic purchase.

New consumer demands are expected to evolve around certain product specifications (connected-autonomous car, security) and mobility services (pay-as-you-drive according to needs such as daily transportation, weekend traveling and urban mobility). The current sales model needs to evolve with consumer behavior. Dealers should adapt their strategies, offering mobility services aligned with consumer needs around services (transportation, pick-up, etc.) and products (renting, maintenance, insurance, financing, etc.).

### II. From a B2C model to a B2B model oriented toward smart fleet management

Mobility service intrinsically means the need to serve fleets.

Moving from a B2C to a B2B model will require different capabilities: (i) the sales force must proactively visit and identify the customer, contrary to the current B2C model, in which the customer approaches the dealer; (ii) personalized offers and advice are required to manage vehicle-fleet needs, offering adaptations to the services contract according to the use the client makes of its vehicle fleet; (iii) the relationship with the customer does not end with the sale/rent of the vehicle, but requires continued service with high-quality standards.

Dealers' current practice of selling one car to one person is not likely to be a sustainable business model forever. Dealers should

not miss the opportunity to anticipate current market trends and propose solutions to new customer mobility needs, for example, by positioning themselves as mobility service providers and becoming operators of fleets themselves.

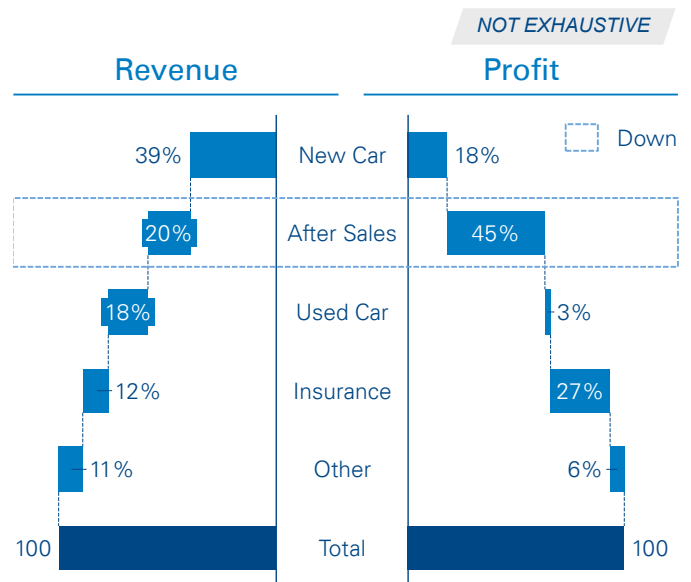
One potential option could be offered through *flexible vehicle renting*, which would cover specific consumer needs at each time of consumption (weekday versus weekend needs, rural versus urban, business trips versus vacations, etc.).

The consumer would pay a competitive monthly fee, and have the required vehicle model at any time of the day.

Flexible fleets will have to offer ad hoc solutions based on specific customer needs. This will require: (i) proximity to the consumer, (ii) multi-service solutions, and (iii) ability to reach different segments of the population in order to monetize its product mix, so that the segments complement each other in terms of consumption times (young people, workers, retirees, business and domestic service transportation, delivery, etc.)

### III. From high dependency on after-sales profitability to a need to develop new sources of profitability

Currently, dealers' main sources of income are sales of new vehicles and after-sales services.

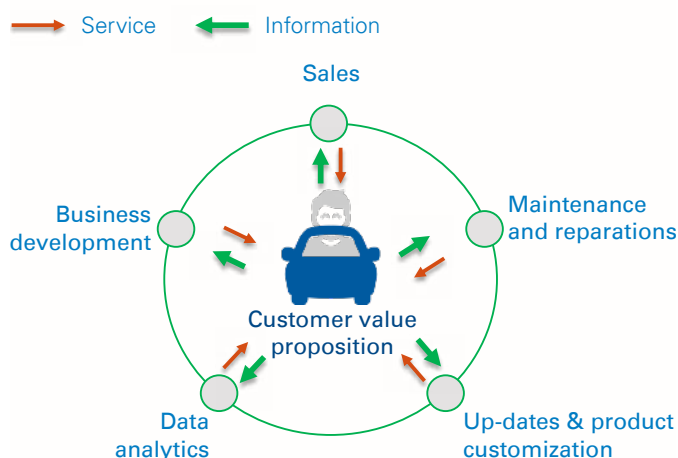


Source: Arthur D. Little analysis

Arthur D. Little's long-term vision is that the electric, connected and autonomous vehicle will alter the turnover mix.

The returns from the technological services of these vehicles will be reinforced, while revenues from the aftermarket will be reduced.

## Competencies in the new sales/after-sales ecosystem



Source: Arthur D. Little analysis

In this context, dealers should develop new sources of profitability such as data and product customization, and others such as service quality and speed, location of the workshop, and availability of spare parts through optimum stock management.

The dealer, besides managing the software updates, would have to position itself to play a proactive role in commercializing these types of products and services.

In the case that dealers own the customer relationship and the customer data, they will be able to manage the customer over its entire lifecycle, as well as exploit customer data for service development or even enter into schemes for data monetization.

### IV. From traditional selling and after-sales competencies to software and services development

As described above, dealers' current competencies are focused on customer service in a traditional way, managing sales reactively through product-centric models.

The new ecosystem will require new competencies, mainly related to acquiring and analyzing data, and being capable of managing the new partners' ecosystems.

In a service-centric model, new dealers' key **competencies** can be summarized in:

- **Sales, maintenance and repair: traditional after-sales profiles with new data-tools knowledge** to provide better and more personalized service (e.g., predictive maintenance)
- **Data analytics and software development:** Companies will need professionals capable of **developing tools to improve**

**customer experience** by introducing new case uses, and that have specific capacities such as virtual modeling and simulation, predictive analytics and big data, augmented reality and wearables, etc.

- **Business development: capable of orchestrating all other areas** and dealing with **new partnerships** with service providers

## Challenges for the automotive industry

In Arthur D. Little's view, dealers will be some of the most affected by the coming revolution, and need to evolve. New models will need to be developed jointly with their respective OEMs. This will have profound implications, and requires reflecting on:

- **Role of the dealer** in the new ecosystem and the fundamentals of their value added
- **Service and value proposition** in the new context
- **Revenue model** and economics
- **Key capabilities and competencies** to play in this new context

Dealers should not only adapt to the situation and changes that are taking place, but also be aware of new business models that have been unexplored until now. Today there are examples in the market, such as:

- *Carflex* – Flexible-rent fleets that adapt to the changing needs of companies by increasing or decreasing their fleets
- *Car2go, Lyft and Blablacar* – Covering mobility needs in the city and on long journeys, respectively, with car-sharing services
- *Alphabet* – Has started to test, in Spain, a system of car sharing for business parks in which workers of different companies can share vehicles for corporate purposes.

This implies that the mobility paradigm is beginning to change and initiatives are emerging in this line. It remains to be seen what the dealers' final role will be within the model and how they will react.

### Who will lead the change?

A model of mobility services driven by technological disruptions and new client needs will require relevant capabilities. The technological capabilities can be acquired, but owning the relationship and the knowledge of the client takes time.

In this context, the scale will be relevant. Dealers will likely need to leverage their capacities through partnerships or mergers to obtain the resources and competencies needed. Proof of this is how the different initiatives (such as “Car2go”) have been driven by OEMs (Daimler).

Faced with this challenge, large dealer groups are likely to emerge to lead the evolution in the short and medium terms. Meanwhile, OEMs will take the lead in the long term because they will be the ones to have the necessary capacities, besides controlling the product, the services and, ultimately, clients and their data.

## Key takeaways

In a more practical way, dealers and OEMs should start reflecting on the two main pillars of the coming revolution.

### Owning and knowing the client as a cornerstone to start developing a new model of services

- Work on the customer experience to assure a solid omnichannel experience.
- Ensure the availability of CRM/BI/analytics tools from a customer-centric perspective, developing products and services based on the acquired knowledge.

### Defining an HR strategy aimed at closing the gaps in the new competencies and skills

- Infuse HR strategic planning (new roles, new skills, etc.) into the dealer’s mind-set.
- Work on the incentive scheme (not only a volumes and products mix).
- Start new training and coaching programs oriented toward the new skills and competencies needed.

OEMs should also consider a third pillar of the coming revolution

### Adapting the footprint and operations to revamp and adapt the commercial operation

- Define the market-coverage model (less and different dealers) according to mobility trends and client needs.
- Start outlining how the new market-coverage model will affect the dealer’s physical format and standards.

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## Arthur D. Little

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