

Online Sales in the Automotive Industry

How can the internet become a successful sales channel for the automotive industry?



Online retailing has changed customer behavior and fundamentally altered the sales process in some industries. To meet today’s customer expectations and in particular to reach the younger customer segments, the automotive industry must extend its sales channels and online offerings to reach the ambitious growth targets. Currently, the role of the online channel within the car sales business is typically limited to information gathering with few links to sales. Overcoming this issue has the potential to significantly improve sales performance in some customer segments. In this article, we draw on our global automobile consumer research covering Germany, China and the USA to highlight the opportunity for online car sales by evaluating major barriers and identifying key success factors from a customer’s point of view.

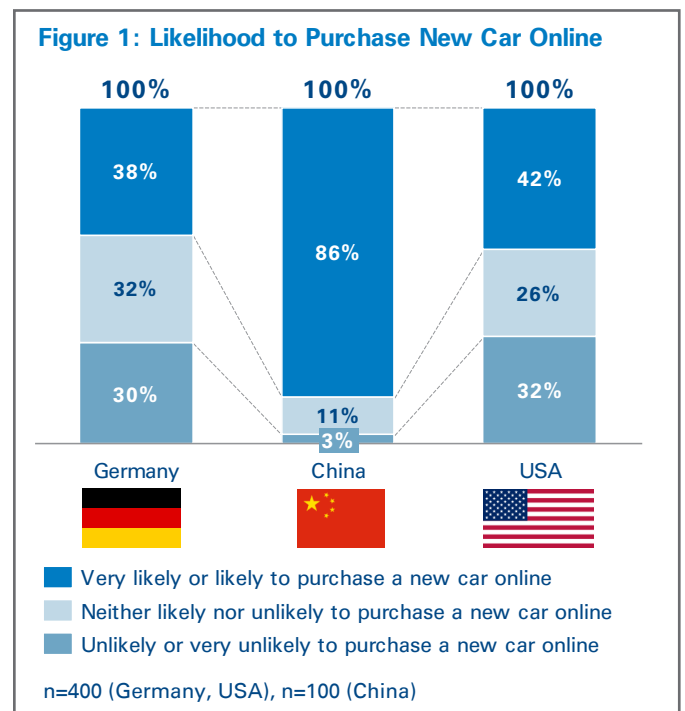
Arthur D. Little recently completed a comprehensive customer survey analyzing the internet as a sales channel in automotive business. In order to validate demand and identify critical success factors and requirements for online customers, approx. 1,000 survey results were collected from customers from Germany, China and the USA.

results show that a significant proportion of customers would buy a car online, with Chinese customers twice as likely to do so as their German or US counterparts (see figure 1).

A significant proportion of customers would buy new cars online

Experts agree on the upcoming, strongly demand driven importance of the internet as a sales channel also for automotive. In the study “The Future of Mobility 2020” we showed that customers’ behavior and expectations are changing. The act of buying a new car is transitioning from a very emotional purchase to a rather rational decision of a short term lease and use model. For an increasing number of people a car will simply become part of their mobility package and will no longer be viewed as a status symbol. Our research shows that very few new vehicles are sold online today. However, our experience with leading automotive companies is that customers have less time and may appreciate the convenience of transparent and simple online processes – our hypothesis is that customers would be willing to purchase a vehicle online but that there are some clear barriers to overcome.

To test our hypothesis, we asked customers directly about their likelihood and preferences to purchase a new car online. The



Exclusivity, convenience and price advantage are key success factors

An analysis of other industries which have already adopted the online sales channel identified price, convenience and channel exclusivity as the three key drivers that can be used to establish and develop online sales.

- 1. Price.** The most obvious driver for online sales is a price advantage, particularly in fast moving consumer goods industries. However, suppliers of luxury products cannot easily replicate this approach as it reduces the status of the product. Apparently, they want to avoid price transparency and a competition between their sales channels
- 2. Convenience.** Online retail businesses such as Amazon generate a large share of their revenue by offering a fast and reliable supply to their customers' homes; an online purchase is often simply more convenient than other conventional retail options.
- 3. Channel exclusivity.** For premium products like high-end consumer electronics or top brand fashion goods it is not necessarily price that makes the difference between the online channel and conventional retail. Customers of these products are looking for exclusivity. Successful retailers have used special online editions or exclusive online pre-orders to add additional value to customers and raise the awareness of their online channel.

The same incentives can be used to push automotive sales

Our customer survey results confirm the same trends for the automotive industry. For US and German customers who are likely to purchase cars online, price remains the most important factor. But the answers also confirm that convenience and exclusivity are determining parameters in all markets (see

figure 2). We note that price advantage is a relatively less important factor for Chinese customers who are far more interested in exclusivity than their German or US counterparts.

Furthermore, our study shows that customers who are likely to purchase a new car online are also more open to new retail concepts. This is particularly the case for young customers. Beyond the pure online channel, these customers want more interaction along the sales process. They want to have the opportunity to switch between sales channels during the purchase process. This could work as follows: the customer obtains information through the internet, test drives the vehicle by renting it during a business trip, receives support from a call center during online configuration and finally makes the purchase on the website. Our study also demonstrates that those customers wish to: use life-chat functions, get support from call centers and make use of external providers throughout the sales process. They are looking for new ways to experience car sales beyond visiting the local dealership.

The main obstacle to purchase online is the final transaction. We asked customers about their preference regarding the online offer. The results show clearly that there is a need for a differentiated offering. As in the offline world, online customers require a choice between full transaction price payments, monthly lease fees and full service offerings. Figure 3 shows that there is no strong preference among the different options for German and US customers, but a demand for alternative solutions.

Our study reveals that the online sales channel has the potential to make a strong contribution to car manufacturers' ambitious sales targets for the upcoming years. In order to reach younger customer groups, they will need to establish better online sales channels. However, because of the complexity associated with a fully configurable product range, it will not make sense to offer the whole product portfolio online. Moreover a set of vehicles

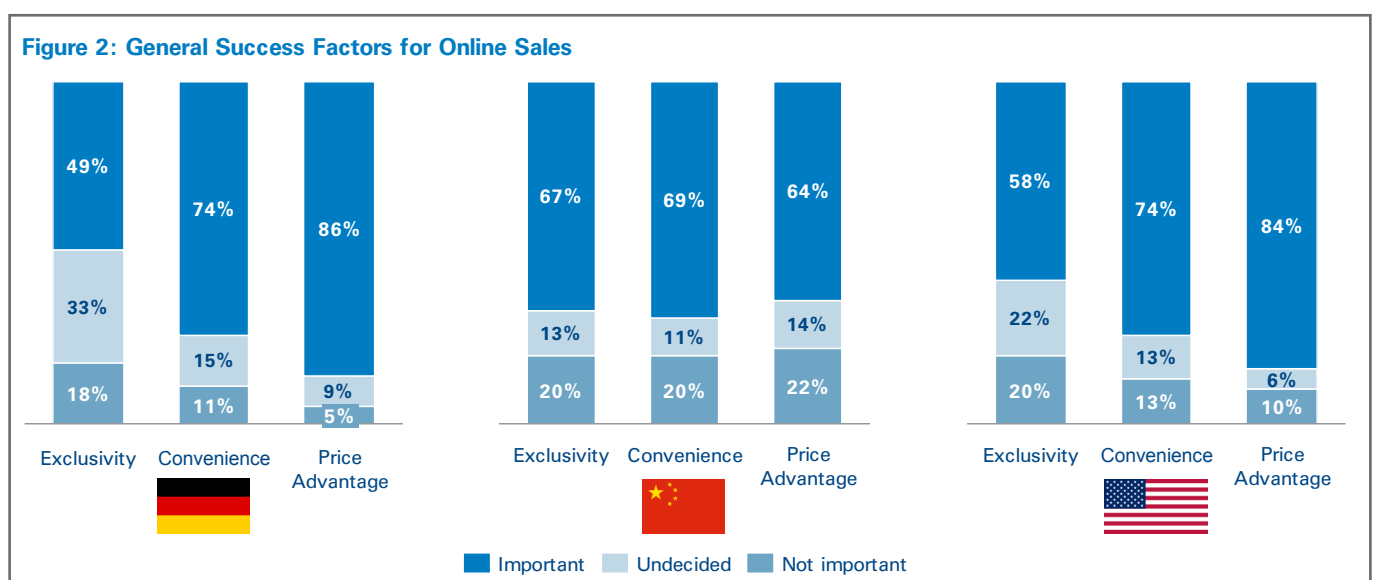
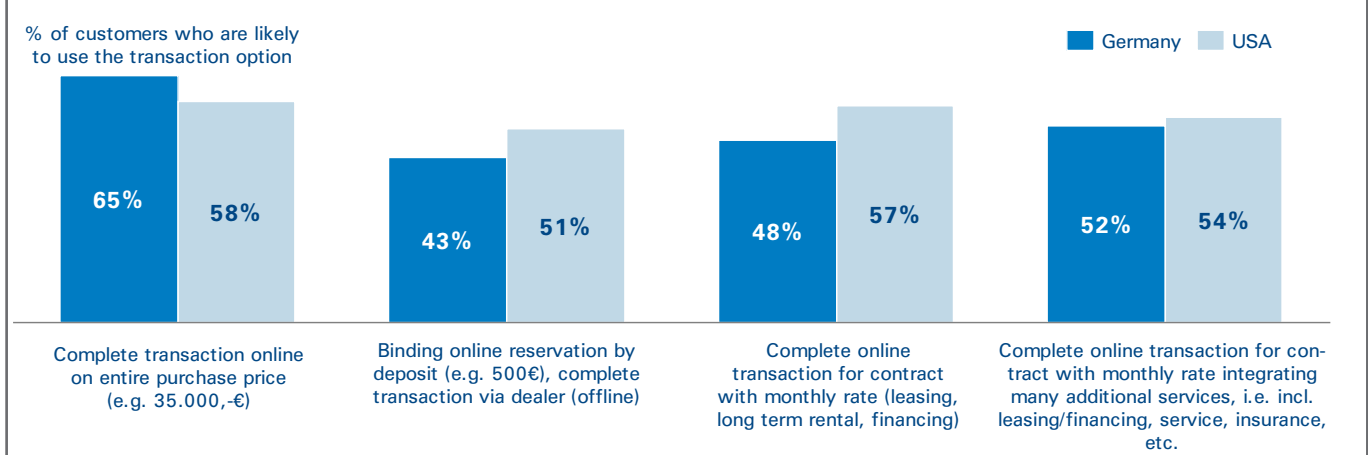


Figure 3: Transaction Options for Online Purchase



from stock or pre-configured vehicles will be suitable for the online sales offering. This will avoid full price transparency, price fights and cannibalization with other product channels especially the dealer network. In other words online sales should be a supplementary but fully integrated channel.

OEMs face barriers to establish online sales

Despite the clear demand for online retail, it is also evident that car manufacturers need to consider implied risks when extending their sales channels. Indeed legal concerns as well as risks related to the company's distribution policy and the dealer partnership must be analyzed.

Depending on the contractual terms applied in dealer contracts, the brand owner will perform online sales directly or only in collaboration with its dealers. However, whatever the contractual terms, introducing online sales will have an impact on the relationship with dealerships and this needs to be carefully considered.

The most significant legal concern certainly arises from national consumer protection legislations. The EU distance selling directive aims to protect private customers in respect of distance contracts. In most countries this has led to the right to "cooling off period" and the right to return products from online sales. If similar laws also cover car sales, OEMs will face significant financial risks.

Six key actions for OEMs to launch online sales successfully

Many automotive companies already have an online channel to support sales and aftersales to their private customers and/ or business accounts. Some of these companies have obtained positive results regarding cost reduction or brand promotion. However, the most attractive opportunity, achieving direct topline growth through online sales, is still untapped. To

successfully develop the online sales channel six actions should be considered:

1. Align product portfolio with online and offline sales channels

In order to tap the potential of online sales while avoiding negative effects caused by cannibalization, OEMs must find the right balance between conventional and online sales channels. The channels should not compete against each other, but should be fully integrated into a holistic sales concept. For each of its products the company needs to decide if, and which part, of the sales process should be covered by the online channel. Defining the reach of the online channel, should be accompanied by a clear strategy regarding the sales functions owned by its own sales entities and those of its franchise dealers.

2. Establish a digital sales ecosystem for true multichannel retail

Future customers are likely to use multiple formats and channels throughout the sales process – this means that developing online sales will require an integrated approach able to deliver the sales platform(s) through a combination of web services, mobile applications and devices, social media platforms and personal customer websites. Trust is hard to gain and easy to lose in the online world so this will also drive a requirement for very reliable IT systems to handle interfaces such as billing, payment, accounting and contracting.

3. Gain support of the dealer network

Sales are typically based on a strong dealer network. A strong online sales approach should be accepted by the dealer association. Brand owners must consider their dealers' interests when determining distribution and pricing strategies. In general online sales must be considered in the dealer compensation model. For example dealers can benefit from deliveries of vehicles sold via the online channel.

4. Offer a clear benefit

Customers must see and feel a real benefit in using the new sales channel. As described, there are different ways to incentivize customers to use the online channel. The convenience of the channel should be communicated. Depending on the product, the channel can create exclusive offers (e.g. through pre-ordering programs and special edition packages). Rather than offering price reductions, benefits could include improved option packages, lease and finance rates, faster product delivery, or improved maintenance packages. Considering the local market needs the approach needs to include what the customers value most and deliver on this.

5. Educate the customer

Every sales channel relies on the customer's confidence. Customers must be aware of the new channel, its functions, security and especially its benefits. Trust can be achieved by giving the customer a successful experience of the online sales channel before buying a car. This means offering a whole range of products (accessories, navigational devices) and services (test drive booking) as well as setting up a reliable process.

6. Reduce commercial risks

The online sales approach should attempt to minimize the commercial risks associated with the EU distance selling directive. Since the directive applies to most contracts where a consumer and a supplier do not meet face to face at any stage until after the contract has been concluded it may be possible to reduce commercial risks by incorporating face to face interaction (test drives with company representatives, physical exchange of contracts etc.).

Summary

Online channels are increasingly used in numerous industries. Customers are getting used to an online sales environment. Automotive companies can tap into these benefits and achieve additional sales through attraction of new customer segments, or by generating an increasing amount of useful customer data for CRM purposes. In addition, it has the potential to significantly lower operating costs across the sales process.

Besides these benefits, there will be a pure necessity for the new channel in the automotive industry. The sales process is inevitably expanding to the digital world and requires a holistic approach encompassing the demand driven trends. Customers want to have the option to connect to their enterprise anywhere, anytime and anyhow – a social enterprise will need to offer total connection to all potential and existing customers. The automotive industry will not be an exception and OEMs will need to reflect future sales and the role of online.

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Arthur D. Little

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