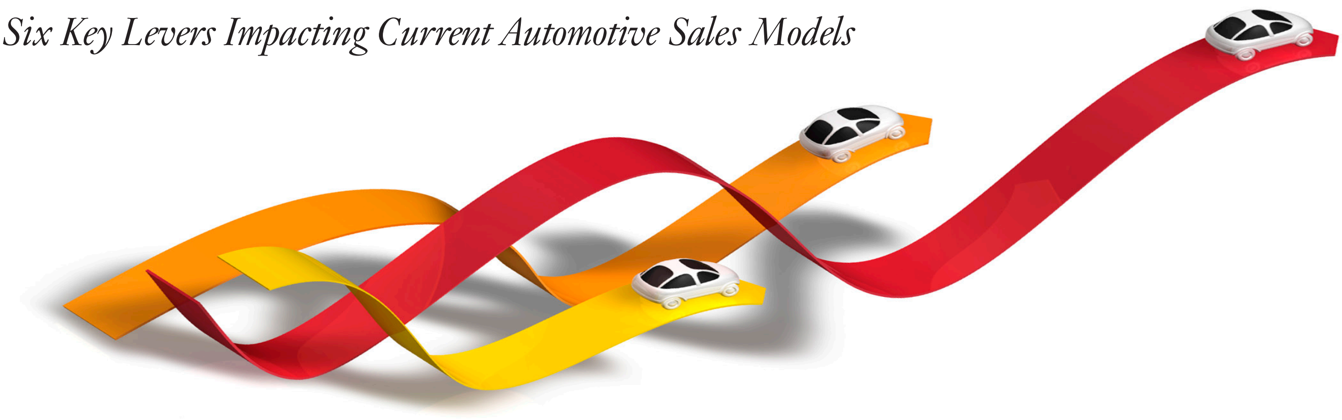
Battle for Sales in the Premium Segment

Six Key Levers Impacting Current Automotive Sales Models



Competition in the automotive premium segment will become fierce putting market shares at risk. Nevertheless, all three German premium automotive brands still aim to become No. 1 in 2020. In order to stay competitive, sales models in the automotive premium segment are required to undergo major changes. Arthur D. Little has identified six main levers of strategic and operational excellence to help premium brand OEMs adjust their marketing and sales models in order to meet tomorrow's market and customer requirements.

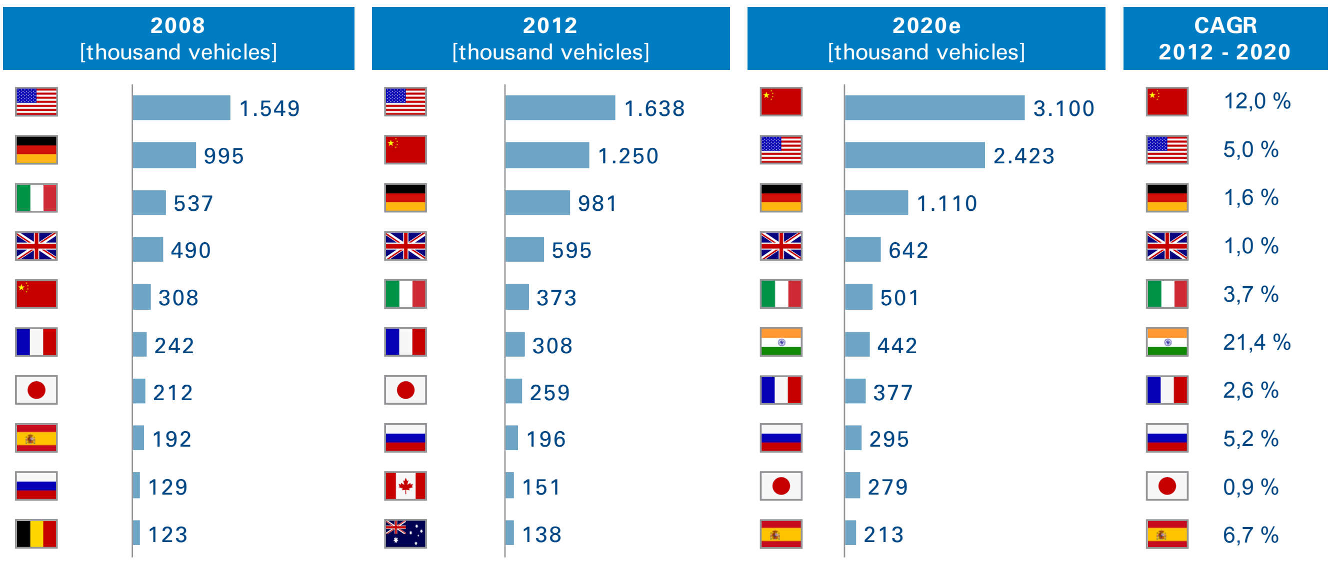
Global automotive premium market expected to grow until 2020

Over the last few years, worldwide demand for premium cars has increased substantially. From 2010 to 2011, sales in the premium segment rose by 12.5% to 5.77 million units, whereas the global market grew by 5.1% to 58.9 million. Accordingly, the share of the premium segment to overall sales reached 9.8%.[1]

The strong expansion in the premium segment is mainly triggered by a strong demand for premium vehicles in China, which at the moment is the main battlefield for premium automotive OEMs. Its premium automotive market increased from 2008 to 2012 by 400% to 1.3 million units.

Considering the growing number of income and asset millionaires especially in Asia, it can be expected that the

Figure 1: Global Premium Automotive Sales



Source: IHS Automotive; Arthur D. Little Analysis

1. Institut für Automobilwirtschaft

premium vehicle market will continue to grow. Figure 1 (overleaf) depicts the changes in the premium segment between 2008 and 2020 by country.

Main levers of automotive marketing and sales excellence

Based on the tremendous growth ambitions of all premium OEMs, the main challenge will be to conquer new, additional customer segments while simultaneously transmitting authentic brand values to existing customers.

Besides the offered products, the main differentiator and prerequisite to succeed in becoming No. 1 in 2020 is an advanced marketing and sales model.

Based on our experience of working with OEMs we identified six key levers of automotive marketing and sales excellence (see Figure 2), which OEMs need to adopt in order to become the dominating premium OEM in 2020. The six key levers are:

1. Customer Experience Management

Customers evaluate sales and service quality to be almost as important as product quality. Consequently, customer-focused sales and best-in-class customer experience across all touchpoints is a key success factor and the main differentiating element in the battle for sales.

Customer centric approaches try to engage with customers and avoid pushing products to the market. Customer Experience Management (CEX) as the backbone of a differentiated customer approach helps to create unique experiences for customers along their sales journey and is the key prerequisite for substantial competitive differentiation.

Customers expect individualized consultation and immediate reaction to difficulties or questions, pushing OEMs to install dialogue abilities at all touchpoints.

To enable CEX, a paradigm shift should be aimed at the data management level. A Single Point of Truth is the basis of successful CEX strategies. Turning away from decentralized data depository at each dealership to central customer data management on market basis is an essential prerequisite for immanent customer interaction and unique customer experiences along the customer journey.

Only those who constantly succeed in creating wowing customer effects across all touchpoints will be able to attract new customers, keep the existing loyal and convince them to repurchase vehicles and services.[2]

2. Product and Regional Strategies

Regional strategies need to adjust to customer requirements in the corresponding product / service offering portfolio of the OEM. Especially while broadening the product portfolio to even smaller car segments, sales oriented market and customer segmentation are necessary to identify future customer needs.

Moreover, a consistent focus on built-to-stock vehicles is required to achieve necessary sales volumes while mastering complexity at the same time – especially in the smaller and less expensive model segments.

Figure 2: Automotive Marketing & Sales Excellence Levers

Source: Arthur D. Little

2. See Arthur D. Little Viewpoint "Managing the Customer Experience"

The fleet market share will also increase in saturated markets. Thus, in addition to the private customer sector, it is important for premium OEMs to develop targeted business customer strategies and innovative offerings – especially with respect to new and flexible mobility services.

As a matter of fact, OEMs should try to position themselves in the mobility ecosystem as new business models will arise soon. Yet, the challenge is to design profitable solutions and integrate them into the current business to best serve customers.[3]

3. Retail Formats and Net Development

Customers should not become tied to one channel along the sales process as customers have different requirements. For example, younger customers tend to request online opportunities for gathering information, configuring their cars and for purchasing.[4]

But not only online abilities need to be taken into account. There should be interaction and integration of different sales channels to ensure a multichannel approach.

To prevent losing customers along the buying process, all channels must be seamlessly integrated with both frontend and backend systems and sales staff should be aware of previous customer activity.

On top of that, OEMs need to rethink their future retail network structure and strategy. Traditional 4S (sales, service, spare parts and surveys) dealerships will lose sales importance, while new, innovative and highly flexible sales formats allow for flexible net development and are required to address the customers' in their living and working environment.

A much broader mix of sales and aftersales formats is to be provided in future to optimally address specific customer requirements. For instance, innercity showrooms as well as semi-stationary or pop-up formats will become more important.

But due to arising space limitations the full product range can no longer be displayed. Therefore, all OEMs have to think about intelligent ways to digitalize and present their product portfolio.

These sales formats will more and more become centers of brand experience – where friends of the brand meet each other, where they "subconsciously" interact with the brand and ultimately experience the products as well.

4. Connected Car

Connected cars are the trigger for a new, customer oriented business. Due to increasing interconnectivity, cars will become more intelligent and ultimately be an integral part of the customers' individual living.

Using the analogy of Apple's iTunes, premium brand OEMs need to master the challenge of providing clear, additional value via services to customers – services, for which the customer is willing to provide his personal data in the sense of central user authentication.

Only by providing a clear benefit, value-added services can develop their full potential and motivate customers to keep their personal data up to date and to generate revenue streams besides the physical product.

Strategic investments in premium connected car solutions are the basis for optimally addressing customers and increasing penetration and retention.[5]

One of the main challenges of the OEM will be to analyze the received data for optimizing products / services and to generate new cross-selling potentials. Under the buzzword "Big Data", new approaches and concepts are required to bring the needed intelligence in place for handling analysis.

5. Processes and IT Integration

An essential prerequisite for effective and efficient retail are state-of-the art processes across all sales levels and their ideal IT infrastructure support. IT infrastructure needs to evolve in line with business requirements. Eventually, a worldwide standardization of relevant processes is necessary.

To achieve the required standardization, OEMs should integrate differentiating processes into their backend and offer a common frontend to all retailers.

As already mentioned, OEM data and retail data integration is especially essential from a CRM point of view and also to aftersales services.

Against the backdrop of current heterogeneous systems and process landscapes at retail level it, will be more and more important to professionally manage integration. In due course, OEMs will find themselves able to tap into further efficiency potential.

6. Margin Orientation

A systematic margin orientation across all distribution levels is a key prerequisite for profitable sales. Profitable sales can only be achieved by increasing sales volumes while keeping overall costs as constant as possible. This will only be achievable by flexibilizing the retail net via new, innovative retail formats and simultaneous standardization of processes and IT.

Obviously sales model restructuring will also have an effect on the sales personnel. Not only are sales consultants required to sell an increasing number of product variations, they will also

3. See Arthur D. Little Report "Future of Urban Mobility"
4. See Arthur D. Little Viewpoint "Online Sales in the Automotive Industry"
5. See Arthur D. Little Viewpoint "The Connected Car – Finally Coming True?"

have to deal with a more diverse customer base in a variety of sales channels. Therefore, OEMs need to rethink their sales personnel strategy and remuneration systems radically to evaluate achievements by a set of transparent key performance indicators.

To master these changes, retail consulting and coaching will be more important than ever before.

Act now to achieve future automotive marketing and sales excellence

Instead of closing their eyes to the arising competition in the premium segment, automotive manufacturers need to face up to these challenges and address the identified six key levers for automotive marketing and sales excellence.

Only those who manage to shape these levers in an excellent way will succeed in becoming the No. 1 premium automotive OEM in 2020.

Arthur D. Little will help you to identify weak points and white spots by assessing the key levers of your current marketing and sales model and, subsequently, provide solutions for improving these levers to excellence.

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Arthur D. Little

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