InsightReport 2021

COX AUTOMOTIVE | Grant Thornton

DRIVING OPPORTUNITY: DEPLOYING GROWTH MINDSET ON THE JOURNEY TO 2030

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THE BUYER BEHAVIOUR REVOLUTION AND NEW RETAIL MODELS

Changing how vehicles are bought and sold

"As the sector moves towards a more digital, connected, and electrified future, significant investment will be required by dealers to ensure they are ready to take advantage."

Louise Wallis, Head of Business Management, NFDA (National Franchised Dealer Association)

Philip Nothard, Insight and Strategy Director, Cox Automotive: "Digital technology is moving quicker than everything else, so we are constantly looking at where it is heading rather than where it is today. As an industry, we need to look to the future at all times."

Changing buyer behaviours and technological advances are fuelling a revolution in retailing. The days of buying new and used cars only from established dealers are behind us. Direct-to-consumer and online-only retailers, new form manufacturers and dynamic pricing models are disrupting traditional models and presenting a challenge – and an opportunity. The validity and success of each is dependent on a fit for purpose infrastructure that connects vehicle and consumer journey at every stage.

In addition, COVID-19 has dramatically accelerated a change in habits and requirements. Consumers expect a seamless experience across the channels they choose: one that's fast, personalised, effortless and transparent. Vehicles must be visible through search, and it must be straightforward to connect all stages of the customer journey, including trading in a part-ex and arranging funding. To create this seamless end-to-end experience, connecting data and touchpoints is vital.

However, while the pace of change is undoubtedly accelerating, it is important not to leave consumers behind. A large proportion of car buyers are still looking to complete their next transaction in a dealership, while, in various markets, legislation makes the direct-to-consumer model very difficult. In the US, for example, many states passed laws in the 1950s to protect and regulate the franchise-dealer relationship. Today these still prevent manufacturers (Tesla aside) from retailing and servicing their vehicles directly in almost half of states. Australia has also recently introduced legislation to protect the franchised dealership model.

These changes in the consumer space are also having a knock-on effect in the wholesale markets. While some of the digital transformation in the past 18 months has been forced by COVID-19, many of the changes were already underway. With stock shortages likely to be a factor for at least the coming year, dealers are likely to look at as many channels as possible to fill their forecourts. This is where digital comes into its own, with the potential to speed up days or even hours to sell, across much larger geographic territories.

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White label digital solutions for wholesale

Sebastian Fuchs, Managing Director Manheim and RMS Automotive Continental Europe: “Digital has been an enabler in Europe for customers to build their own virtual auctions and remarketing networks. Working with partners such as the Cox Automotive business, RMS Automotive, manufacturers can create their own branded solutions, which are tailored to specific geographic territories and segmented to support their single or multi-brand approach. These can then be directed at both the wholesale and retail audiences as appropriate.”

Digital retail in the used car market

Historically, the used car market has been heavily reliant on face-to-face interaction. However, digitalisation is transforming the way in which used cars change hands. At present, the used car market in Europe is fragmented, consisting of franchised and non-franchised dealers, online retailers, auction platforms, lease companies, manufacturers, and so on. In any European country, no one player has a dominant market share.

Several challenges still exist when it comes to moving used car sales online, including finance signatures and credit checks; same day payments; and cross-border transportation. In China, for example, despite the tech-savvy nature of many buyers, legal restrictions mean the final financial negotiations and payment need to be done in person. However, it will not be long before these challenges are resolved globally.

The use of digital at various points throughout the sales process has increased, in part due to the COVID-19 pandemic. Omnichannel retail – a hybrid of digital and traditional channels – must be a priority for dealers and manufacturers alike. There is a need for seamless integration between new and old channels, providing customers with flexibility and choice. While still making up a relatively small proportion of the total, online used car sales are likely to double in the next five years.

Manufacturer spotlight

Stellantis is rolling out SPOTiCAR, a multi-brand Manufacturer Certified Pre-Owned programme in Europe. It is three years old but already attracting over 30m visitors to the site each year, across 10 countries, creating a direct route for consumers to transact with the 14 Stellantis brands. In the used car space, most consumers start with the budget and size of vehicle, not the brand. As a multi-brand company, Stellantis is trying to support that approach to take back control of leads which were being lost via third party classified sites.

A question of trust

Sebastian Fuchs, Managing Director Manheim and RMS Automotive Continental Europe: “While consumers may be more willing to buy online, trust remains a key issue. Manufacturers and challengers alike will need to stand behind their product, offering refunds and return guarantees to provide confidence. There are also significant improvements in finance tools, which support a more streamlined online user journey. Open access innovation is going to be essential for the future of the automotive sector. Where competition was once rife, we will now see brands cooperating and collaborating to produce the economies of scale and open ecosystems that will support consumer demand.”

UK car buying habits

In good news for the automotive sector, almost nine in ten drivers (87%) were satisfied or very satisfied the last time they bought a new or used vehicle.

When purchasing their next vehicle, new or used, almost two thirds (64%) of people would rather attend a dealership to physically experience the car and complete all aspects of the purchase. Just one in 20 (5%) would want to complete all aspects of the purchase online and have the car delivered. The remaining third (32%) expect a mix of in-person and digital touchpoints.

Looking specifically at the different stages of vehicle purchase, finance elements are those which consumers would most like to complete online, i.e., reviewing a payment calculator, applying for finance, finding information on special offers, and making a deposit. However, three quarters (77%) would like to finalise the purchase price online, suggesting the art of negotiation and a last-minute deal is still valued.

Talking finance, three fifths (62%) of those surveyed would prefer to pay cash and take outright ownership of their next vehicle. Just under a quarter (23%) would look to a 2+ year finance agreement. More than half (56%) expect to part-exchange their current vehicle with

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the dealer, while a quarter (25%) will sell privately, either direct (16%) or through an online marketplace (9%).

Source: Regit.cars survey of 1,000 in-car drivers August 2021

Chris Ashton-Green, Founder and Chief Commercial Officer at Regit.cars: “Despite there being a definite need for dealerships to become increasingly digitised in order to adapt to ever-changing consumer habits, there is still a strong demand from motorists to attend the physical dealership to complete, at the very least, a substantial part of the car buying process.

“However, it's integral that dealerships do provide online options for those who want to do the vast majority from the comfort of their own home, as car buyers have shown definite support in each segment for an online element - and we only expect that will grow.

“It's great that so many people also expressed satisfaction at their last new or used car purchase experience. For many people who complete the car buying process, we are generally doing a good job. That's not to say the picture is completely pretty, as we know from our own direct feedback that a substantial number of motorists drop out of the car-buying journey after either not getting a call back or a negative experience, so there is definitely work to be done.

“Outright ownership is seen as the preferential method of acquiring a car amongst those we surveyed, although having the cash to act on that preference is clearly a major barrier, with around 80% of car sales through our own network being done through a form of finance.

“Despite millions being spent by massively disruptive brands to encourage drivers to consider the direct sale of their vehicle, the vast majority part-exchanged with their dealer and most expect to do the same again next time around. As we consider the role of dealerships moving forward, it's clear the relationships that dealers build with drivers in their local community, coupled with the element of habit, mean motorists will continue to look for local dealers to undertake such a significant transaction.”

Read more about the Cox Automotive perspective on the relationship between consumers and retailers in the Cox Automotive trend definition document #4: The advent of new retail models that are disrupting the status quo and Cox Automotive trend definition document #5: Ever-evolving consumer expectations and the buyer behaviour revolution.

THE BUYER BEHAVIOUR REVOLUTION AND NEW RETAIL MODELS

Agency vs. franchise model

Embracing new ways of doing business

Philip Nothard, Insight and Strategy Director, Cox Automotive: “We know that manufacturers are moving further upstream, wanting to go direct to the end user. There’s a lot of that taking place. Both buyers and sellers want faster decisions, greater transparency, more knowledge-sharing, and a more efficient process.”

Just 12 companies now control 45 automotive brands. With consolidation in the market comes inevitable discussion around economies of scale and more effective retail distribution models. Dealerships are expected to remain at the heart of vehicle sales for many years to come; however, their relationship with the manufacturer and consumer looks set to change. While the agency model is not a completely new concept – Daimler introduced a version in Sweden in 2019 – it has become a hot topic of conversation over the past two years.

Manufacturers like Honda and Mercedes-Benz have committed to this route in Australia. Volvo has announced plans to sell all vehicles direct by 2030, and Volkswagen has signed new agreements with dealer partners in Europe, by which customers will be able to order vehicles directly and select their preferred dealer for personalised customer care and local services. Agents will look after the acquisition, sales consultation, organising of test drives, transaction process and vehicle handover.

One Europe?

Mike Mosier, Sales and Operations Director, Cox Automotive Continental Europe: “We see interesting differences across Europe. It certainly isn’t one market. For example, the big dealer groups are getting bigger and acquiring smaller groups. Consolidation is a real trend. However, this is much more accelerated in Northern Europe than in countries further south. A similar pattern can be seen around the digitalisation of the used car space, which is happening quicker in the northern European market.”

A view from ‘down under’

Manufacturers are taking a pioneering role in Australia when it comes to introducing the agency model, with pilots across several brands. Honda has switched to selling vehicles through ‘Honda Centres’, with 90 locations managed by 47 owners. Previously, Honda had 106 dealers. The approach features ‘no-haggle, drive-away' prices and a fixed price servicing plan for every new Honda. Metallic paint and five years’ roadside assist will also be standard across the range, which has been pared back to focus primarily on high-spec models.

Agency vs. franchise model

Mercedes-Benz launched a direct-to-buyer sales model for its EQC electric car in the Australian market at the end of 2019. Nine dealerships signed up to the approach, with a view to focusing on marketing, handover, and servicing. The approach also featured fixed pricing and online retail. Franchise dealers remained a key part of the process. However, more recently, dealers have been asked to sign up to a new agency sales agreement covering all new vehicle sales, as well as the ECQ brand, and parts and service. The change goes live from 1 January 2022.

Hyundai has also joined the direct-to-customer approach, asking dealers to refund any deposits for the Ioniq 5, due at the end of the year, so buyers can go direct to the corporate website for a non-negotiable fixed price. At this stage, however, the manufacturer has said it intends to distribute all other models through the standard dealer network. The justification to go direct-to-customer with the Ioniq 5, it says, is because of intense interest and restricted supply.

Genuine or non-genuine agency?

There are subtle differences between a genuine agency model where the manufacturer sets prices and manages the relationship, and a non-genuine model where the dealer still has flexibility in the process. While the risk is split more evenly in the latter, the preference seems to be for genuine agency because it offers more clarity over the roles and responsibilities. The likes of Smart, Daimler, and Volvo are pursuing pure agency in some markets, while Volkswagen is looking at more of a hybrid model.

Many dealers remain undecided about the potential impact of the agency model on their business; however, it is clear most manufacturers are moving in this direction. Trade bodies representing dealer groups in Australia, Germany, the UK, and other markets have questioned exactly how the model will be deployed. It seems as though many manufacturers are now moving quicker due to the impact of COVID-19 on global vehicle sales, yet dealers remain in the dark as to how they will be affected by the roll-out.

Benefits and challenges

While benefits include not having to invest in a showroom or hold stock, the reality is many dealer agents will still require physical premises to support customer service, mobility solutions, and engagement activities, as well as fulfilment of a 36m used vehicle aftersales marketplace. In addition, there is a suggestion many will move to a multi-brand operation with a heavier emphasis on used car and aftersales. They will also need to lease demonstration vehicles from the manufacturers for test drives. Markets like Malaysia and India, where dealerships have been loss-making in recent years, may benefit from reduced overheads; however, they will still need to recoup past investment.

Additional challenges in deploying the agency model include legacy IT systems, lack of existing data integration, and the significant cost burden. Manufacturers will take on much of the business risk from the dealerships. In addition, laws worldwide may not necessarily support direct sales, i.e., the state-by-state protection laws in the US. However, markets like China and India also present potential barriers to the agency approach. The reform of European block exemption regulations is likely to make it difficult to run wholesale and agency in parallel.

Much of the evolution in business models is being driven by acceleration in electric and autonomous vehicles. Specifically, it may be possible for a manufacturer to run both a franchise model and an agency model if there is clear differentiation, i.e., the latter looks at electric vehicles only, but this is still being questioned on a legal basis.

Agency vs. franchise model

The continued need for physical retail

Sebastian Fuchs, Managing Director Manheim and RMS Automotive Continental Europe: “We know that the sales model is shifting. We will still need physical routes to market for the next 15+ years, but there is a growth in hybrid and fully digital models. With manufacturers increasingly exploring the agency model, for reasons of customer experience and data management, we are likely to see more direct-to-consumer sales. This is combined with an increase in digital-only used car platforms, which are growing in market share.”

Manufacturer spotlight

In the Europe, Stellantis has terminated all dealer contracts for its 14 brands with effect from June 2023. It has cited several reasons for this. For example, as a business, it expects to deliver around 70% of sales from low emission vehicles by 2030. The block exemption legislation is up for renewal. The online journey is evolving at pace, with the pandemic accelerating customer demand. Stellantis has acknowledged not every market in Europe is the same, with nuances around maturity, network construction, and investment, which means that what works in one market won’t necessarily work in another.

Agency vs. franchise model

A legal response statement from the National Franchised Dealers Association (NFDA) in the UK

Full text available here.

Putting aside the question of whether the agency model represents a good outcome for consumers, the risks associated with implementing a distribution model that – if not structured correctly – fails to satisfy the complex and strict legal criteria applicable to it are substantial. From a competition law perspective, these range from huge fines (up to 10% of group turnover) to director disqualification (up to 15 years) for the senior management of the businesses involved.

The sector faces two enormously difficult challenges as part of any potential transition:

1. For those parties who wish to pursue a 'genuine agency' model, there is danger that they undervalue the market-specific risks that OEMs will have to remove from dealers' shoulders (both going forward and on a legacy basis) to benefit from benign competition law treatment. Further, those that seek to apply a partial agency model – for example, an agency model for certain products, brands or activities and a normal distribution/ reseller model for others – (and to distinguish markets artificially to avoid having to undertake a holistic analysis of the risks incurred by dealers outside any agency arrangement) could also face difficult challenges. Competition law focuses on substance over form and looks at the economic reality of the situation. This involves examining the whole relationship between an OEM and a dealer as well as the use and treatment of sunk dealer investments for agency activities going forward, which is a far more complex exercise than simply drawing an easy line between past and future investments, and between agency activities and non-agency activities for the same OEM.

2. For those OEMs who might propose a 'non-genuine agency' model on the basis that they are prepared for their agents to share commission with customers (and so retain some control over the transaction price), this can also create genuine antitrust risk. Depending on the circumstances, such arrangements could give rise to competition law infringements (indirect RPM) if dealers are, in reality, prevented in practice from advertising discounts or otherwise constrained by narrower (agency) margins from offering anything that resembles a true discount to consumers. This issue also needs to be very carefully examined taking into account the economic reality of the situation.

Inevitably, any transition to a sales channel that will diminish or eliminate intra-brand price competition will attract regulator interest, particularly a competition authority such as the CMA, which has an increasingly strong consumer protection agenda, wide enforcement powers, and an appetite to stamp its independent practice on the post-Brexit economy.

Indeed, complex competition issues and substantial risks aside, the transition to agency has the potential to attract the application of other rules that will present unexpected consequences – duties and liabilities – for those involved, which do not seem to be fully appreciated at this stage.

It follows that any transition to agency – the commercial benefits of which are uncertain – will require detailed consideration (and open debate) on the part of both the 'principal' (OEM) and the 'agent' (the dealer) before implementation. If certain OEMs persist with the model regardless, at least in the UK, the risk of adverse consequences should not be underestimated.

This is why the NFDA, on behalf of its members, is open to engaging with interested third parties (the CMA, OEMs, their representative bodies, etc.) to ensure that, if the market does evolve in this way, it does so in a manner that recognises and respects the appropriate rules and delivers the best outcome for consumers.

THE BUYER BEHAVIOUR REVOLUTION AND NEW RETAIL MODELS

Shopping on electric avenue

Direct-to-consumer: the logical next step?

Image: Alexander - stock.adobe.com

Philip Nothard, Insight and Strategy Director, Cox Automotive: “The big change we have witnessed throughout the past few years is the shift in control of the vehicle purchase from the dealer to the customer through the growth in online retail. The agency model is the manufacturers’ attempt at gaining more control over vehicle purchasing, particularly in the high-tech EV and connected vehicle space.”

Reducing the EV sales risk

Electric vehicle start-ups, such as Rivian, Lucid, Lordstown, Arrival, and Fisker, are already embracing the Tesla direct-to-consumer sales model in the US, while Ford has announced a direct sales approach for the Ford Mustang Mach-E via the Changan Ford joint venture. In Europe, Volkswagen and Audi will sell their EV ranges direct to the consumer, and Daimler is going to expand its direct sales model – already active in Sweden and South Africa – to both Austria and Australia. Volvo has also confirmed it will be direct sales only by 2030.

While some dealers are concerned about what this might mean for their long-term future, others are relieved that manufacturers are taking on the risk of retailing electric vehicles while still in the diffusion of innovation early adopter phase. With uncertainty around how quickly EV technology will advance, and questions about how subsidies and incentives will be supported post-pandemic, EV is a financial risk too far for some dealers. If manufacturers take on the retail direct, dealers can put off investing in EV charging and servicing technology for a little longer.

Conversely, for manufacturers, leaving EV sales in the hands of dealership salespeople who may not be ready to upskill, or for whom the existing low market share renders them almost irrelevant, is too risky considering the high stakes in terms of meeting emissions targets. Manufacturers must see EV sales increase to meet ambitious emissions reduction requirements and taking charge of the business model means they have more control over how and where to do so. EV uptake tends to be higher in areas where direct sales models are deployed, if experience in the US is anything to go by. This is, in part, due to the driver education over sales model.

Shopping on electric avenue

Manufacturer spotlight

While built-to-order methods have been commonplace in Europe for many years, the US is now starting to embrace this approach. In July 2021, Ford CEO Jim Farley was quoted as saying, "We are really committed to going to an order-based system." Part influenced by COVID-19, but also the global shortage of semiconductors, the manufacturer is looking to reduce inventory waiting to sell through forecourts and focus on building vehicles to spec and demand. The manufacturer has also introduced Ford Express Buy, an online-only way to purchase the Mustang Mach-E.

Technology integration and consolidation

In China, state-supported EV brands such as Nio, Li Auto, and Alibaba-backed Xpeng compete alongside BYD, Tesla, and Volkswagen. They rely on direct sales and the experience centre model. However, the country's Industry and Information Technology Minister said, in September 2021, that China has too many electric vehicle makers and the government is going to encourage consolidation. While there are around 300 EV manufacturers in China, this number will reduce, with only those who can produce a minimum number of vehicles able to continue.

Technology giants like Baidu, Alibaba and Tencent are an integral part of the Chinese vehicle ecosystem, supporting not only driverless technology but also infotainment and in-car connected platforms. Meanwhile, vehicle sales have been overhauled, with manufacturers live streaming events across third party social media platforms and capitalising on influencer trends. Even traditional manufacturers like BMW are capitalising on the direct-to-audience marketing approach.

The convenience paradigm

Didier Van Bouwel, Chief Operating Officer of Modix International: "Consumers expect more when it comes to customer service. They want to access vehicles and maintenance at their home or work address, rather than going out of their way to visit a third-party location. We are already seeing this in China, where the reduction in aftersales associated with less frequent servicing of electric vehicles is being countered by increased demand for flexible support.

"It won't be long before drivers make the appointment from their car dashboard, someone collects the vehicle from their home of an evening, it is serviced overnight, and returned before they need it again the following morning. That said, we still need a consumer-facing interaction in digital retail, even if that isn't always from a physical location.

"By 2030, if not long before, drivers will be able to buy online, arrange home collection/delivery, coordinate a test drive from their home or work address, and complete all of the finance paperwork online. The latter is currently tricky due to credit check requirements, but organisations are becoming increasingly confident with digital signatures and the global pandemic has forced businesses to innovate."

THE BUYER BEHAVIOUR REVOLUTION AND NEW RETAIL MODELS

Where do people fit in?

Digital opportunities and divides

Philip Nothard, Insight and Strategy Director, Cox Automotive: “An increasing number of consumers start their search for their next car online. However, only a small fraction of all cars sold are purchased entirely online – and just one in five global auto intenders in a Global Auto Pulse Google Survey expressed a preference to purchase online. We are still seeing evidence that most consumers want to physically view, test drive and feel reassured before signing on the dotted line on their next car purchase.”

Growing dealer headcount in the US

Research shared by Cox Automotive in June 2021 suggested two thirds (65%) of dealers planned to increase headcount by the end of the year, with a further third (34%) maintaining. The research also found interest in working in dealerships was growing, but barriers around payment on commission and antisocial hours working were still putting people off. Almost three quarters (72%) of franchised dealers said finding and hiring the right employees was a challenge, with two thirds (67%) saying that motivating and retaining quality employees was also tricky.

Looking at investing in digital processes, around half (52%) had changed existing roles to include new online sales duties, while almost one in seven (15%) had added new digital-specific roles. A similar number (17%) had eliminated roles which were no longer necessary to make way for new processes. Half of dealers (50%) recognise new skills are needed, and the same number recognised they needed to invest in training and education.

Source: The State of Dealership Staffing Study, Cox Automotive, June 2021

Signs of optimism among UK dealers

While there is a caveat around making up for lost roles during the height of the pandemic, the most recent HR Survey from the National Franchised Dealers Association (NFDA) in the UK found more than three quarters (78%) of dealers planned to recruit sales executives over the following three months, and the same number were seeking technicians. Two thirds (68%) were looking to employ service advisors. There was also significant uplift in recruitment intent across apprentice technicians (68%), as well as sales (34%) and bodyshop apprentices (24%).

Source: The NFDA HR Survey, August 2021

Where do people fit in?

Sue Robinson, NFDA Chief Executive: "Dealers are increasingly looking to recruit a diverse skillset to respond to the trends facing our sector, from electrification, to the growing involvement of technology. Focusing on bringing new talent into the industry has never been more important. Attracting and retaining talented people is key to the success of our industry, and we will continue to work closely with our members to assist them with their recruitment efforts."

Dealing with the digital divide

Although significant investment is underway in digitally transforming automotive retail, the digital divide has been exacerbated in many global markets following the COVID-19 pandemic. Characterised as the gap between people in society who have full access to digital technologies (such as the internet, computers, and web-enabled mobile devices) and those who do not, the digital divide has become more apparent as services have moved online during various lockdowns and social distancing measures.

People can be digitally excluded for various reasons. Not just access to technology and infrastructure, but also the cost of access, a lack of skills, or even a lack of confidence or motivation to use technology. The main factors which tend to influence digital exclusion are around age, region, socioeconomic status, and whether people have a disability. While the number of those without relevant digital skills or access is declining, a Lloyds Bank survey suggests around one in seven (16%) people in the UK can't carry out basic digital tasks.

Those who are less digitally skilled may have issues accessing the workplace, as many jobs are now advertised online and require digital application processes. They may also have challenges accessing credit and finance, as banks and retailers increasingly encourage digital service adoption. The Lloyds Bank survey also found almost two fifths (37%) of the UK's workforce lacks the basic skills needed for fully safe and legal online behaviour, posing a potential risk to manufacturers, dealers, and fleets if they don't ensure staff are fully trained and cyber aware.

Playing catch-up

Didier Van Bouwel, Chief Operating Officer of Modix International: "Automotive was running behind other retail sectors when it came to embracing digital technology. There has been rapid acceleration in the past two years, but there are still plenty of gaps and opportunities in the proposition. We also have to be very careful of the digital divide and not moving so fast that we leave a whole customer group behind us who cannot or choose not to access the internet. While digital penetration is high across most of Europe, there are still pockets where individuals will not be able to transact if everything moves online."

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