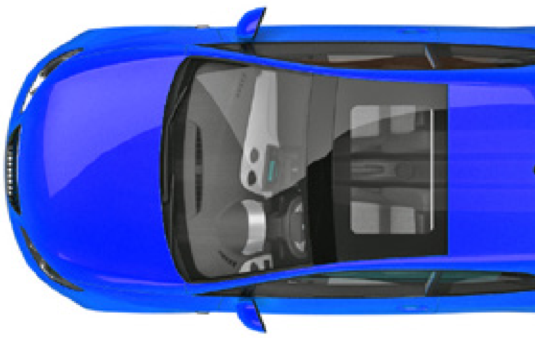
THE FUTURE OF AUTOMOTIVE SALES

PRE-RELEASE
C-SUITE INSIGHTS



Introduction

Established OEMs are facing turbulent times. Worldwide automotive sales are stagnating or declining, policymakers are pushing the industry to reduce carbon emissions, and technology is transforming the automotive business at record speed. In the past few years, more than 140 new automakers were founded in China alone. Some of these newcomers seek to wow customers with attention-grabbing designs and affordable prices. Many, however, are already banking on much more radical changes and seek to revolutionize mobility altogether.

At the same time, customers are starting to turn their backs on traditional automotive sales. With the boom in electrification, connectivity and the sharing economy, automotive sales are ripe for disruption.

For established OEMs, two important questions arise: What will the future of automotive sales look like? And how can OEMs prepare themselves to remain successful?

To answer these questions, we talked to members of the C-suite of established premium and volume OEMs, new market entrants, third-party platform providers and technology giants about disruption in the automotive industry and possible ways forward. By combining these insights with our industry experience, research and project know-how, we have painted a comprehensive picture of future automotive sales and business strategies.

One of the main findings from our research is this: Only those who foresee the upcoming disruption and transform their sales models accordingly will continue to thrive. Those OEMs that fail to revolutionize the customer interface now will not only lose sales, they also risk losing their position at the forefront of the automotive industry. Given their strong brands and vast sales networks, we believe that established OEMs are in a good starting position to shape the inevitable change from being in the business of vehicle sales to being a broker of vehicles and a provider of customer-centric mobility services.

It‘s time to change. Now.

About the study

Accenture is conducting a large study on the future of automotive sales to understand how sales models are changing and what the implications are for OEMs. The study combines quantitative data from customers and automotive dealers with qualitative data from interviews with top managers across the industry (see Figure 1).

Figure 1: Industry leaders and automotive experts interviewed for this study

Dr. Carsten Breitfeld
CEO
Faraday Future Inc.
Former CEO at Iconiq, CEO at Byton and Head of Engineering BMW i8

Marcus Breitschwerdt
Head of
Mercedes-Benz Vans
Daimler AG

Simon Dixon
Founder and CEO
Rockar Ltd.

Joachim Franz
Head of Customer
Experience Management
Volkswagen AG

Horst Hanschur
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Achyut Jajoo
Vice President and Chief
Solutions Officer
Salesforce Inc.

Gerald Krainer
Managing Director &
Go-to-Market Europe
Byton Ltd.

Ulrich Kranz
Interim CEO and In Charge
of Technology at Canoo Inc.
Responsible for the development of the BMW i3 and BMW i8 as former Senior Vice President at BMW Group

Stefan Krause
Member of the Advisory
Board at Canoo Inc.
Former Board Member for Marketing & Sales at BMW Group, Chairman at Deutsche Postbank and CFO at Deutsche Bank

Pascal Schmitt
VP Global Customer,
Network & Importers
Renault SAS

Matthias Schrader
CEO, SinnerSchrader/
Managing Director and ASG
Lead, Accenture Interactive

Alexander Sixt
CAO and Member
of the Management Board
SIXT SE

Ludwig Willisch
Head of Region
Americas (retired)
BMW Group

Antje Woltermann
Executive Director
ZDK e.V.

Dealer Group Executives
Several large national and
international dealer groups

Monumental change in the automotive industry

The industry leaders and automotive experts that we interviewed agreed on two future developments for the industry:

1. Car sales and margins are prone to decline further, making the traditional sales-focused business model of OEMs less attractive.

2. Major socio-economic trends and changes in customer behavior will favor new mobility concepts and create new value pools.

We will next look at these two developments in detail.

Decline in sales margins and revenues

The times in which European and American OEMs defined the rules of the game in the automotive industry, while breaking one sales record after another, are over. Competitive pressure is rising immensely, due to three primary reasons.

First, with the world economy entering a phase of stagnation or perhaps recession, new car sales in the US and in Europe have declined by more than 3 percent in the first quarter of 2019, compared to the previous year. In China, new car sales declined by a remarkable 14.4 percent, leaving about one fifth of the entire Chinese automotive manufacturing capacity idle in 2019.

14.4% decline

in car sales in China in the first quarter of 2019

Second, OEMs are facing significant expenditures in the years to come. The diesel affair in 2015 has led to even more investment in the reduction of carbon emissions, and it raised consumers interest in more eco-friendly mobility. Even though demand for electric vehicles is still low, OEMs are investing billions into their development. In fact, more than 40 percent of all models announced for 2021 will feature electric vehicle (EV) powertrains.

Furthermore, emerging industry trends such as autonomous driving, connectivity and car sharing require OEMs to take action. Responding to these trends which are broadly changing the industry means large investments are necessary.

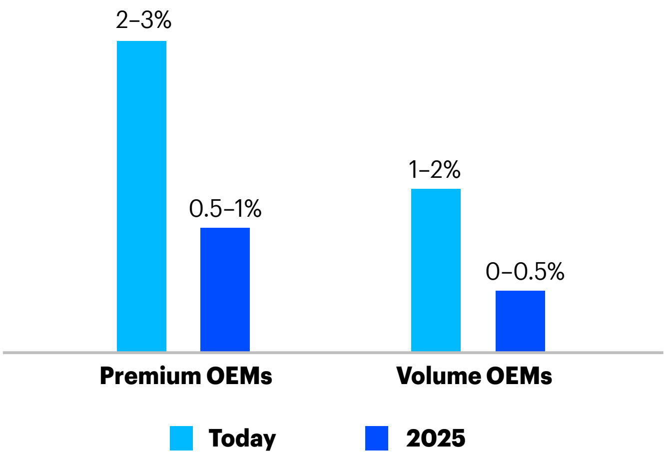
140+ new automakers

have launched in China in the past few years

Third, the automotive industry is seeing an unprecedented number of new market entries. Fueled by the success of Tesla, new OEMs are developing battery-electric vehicles and Byton, NIO and Lynk & Co are just a few examples of those that are currently aiming for an orchestrated global launch. This development does not leave the established manufacturers untouched. In the US, the market share of traditional premium OEMs decreased by 15 percent from 2013 to 2018, while Tesla's market share increased from 1 to 6 percent.

With an approximately 7 percent return on sales in 2017, the industry is economically robust but already shows a large gap to highly profitable industries, which achieve an average of 22 percent return on sales. For automotive dealerships, however, sales margins are much lower at an average of 2 to 3 percent for premium OEMs and 1 to 2 percent for volume OEMs. With competitive pressure rising, sales margins are prone to decline further, making traditional volume sales unattractive for many established OEMs and dealerships (see Figure 2).

Figure 2: Dealer sales margins under pressure



Simon Dixon, Founder and CEO, Rockar Ltd.

Customers have voted on traditional dealerships. They want to buy online, but some still enjoy physical touchpoints for products in an attractive environment. It is key to combine all of these elements into one seamless customer journey.

By 2030, the number of shared cars will be

1 in 10

Changing customer behavior and shifting value pools

Tomorrow's customers are exceptionally tech-savvy. By 2020, millennials will make up 40 percent of all automotive customers. And their behavior is changing the industry. For the customers of tomorrow, a car is no longer a status symbol. In fact, only 4 percent of young customers that we surveyed said they were buying cars for status reasons. For the wide majority, economic considerations (48 percent) and flexibility (37 percent) are much more important. And customers' perceptions of cars are likely to change even more drastically as demographics change.

Already today, 55 percent of the world's population lives in urban areas. As urbanization continues, this number will rise to 68 percent by the middle of this century. And mobility needs in cities are changing. Of young customers surveyed, 54 percent said they were frequently using car sharing. Accordingly, we estimate that by 2030, one car in ten sold will be a shared car. Some analysts even estimate that by then, one robo-taxi will replace up to eight private vehicles, making robo-taxis one of the cheapest forms of mobility in urban environments.

Those customers that decide to own a car are seeking to do so on different terms than before. Customers have been conditioned by digital players such as Amazon or Netflix to expect new standards for shopping and a brand experience: endless product catalogues, one-click shopping, transparent prices, monthly subscriptions, an omni-channel sales journey and free home delivery are quickly becoming the norm. In comparison, the process of buying a car seems outdated. According to Simon Dixon, Founder and CEO of Rockar, "customers have voted on traditional dealerships. They want to buy online, but some still enjoy physical touchpoints for products in an attractive environment. It is key to combine all of these elements into one seamless customer journey."

In a similar fashion, Achyut Jajoo, Vice President and Chief Solutions Officer at Salesforce, stresses that "the car buying process, in-car and car ownership experiences are inconsistent and lag behind other consumer services. In addition, outdated and siloed technology systems are hindering automakers and their dealers' ability to provide the right customer experiences."

The weakness of traditional automotive sales has started to attract investors to the industry, such as those from tech companies, venture capital and private equity. Since 2010, more than 100 billion euros were invested in mobility start-ups. Of that, some 94 percent came from investors outside the industry.

Dr. Carsten Breitfeld, CEO, Faraday Future Inc.

We are building smart, interconnected passenger vehicles prepared for the era of shared mobility. And we will provide the digital ecosystem for a revolutionary and unique customer-centric, in-car experience.

At the same time, startups such as Carwow, Rockar or mobile.de have begun to change the way that vehicles are sold. According to Stefan Krause, Member of the Advisory Board at Canoo, the car of tomorrow cannot be sold via the channels of yesterday because "the traditional way of buying and owning cars is obsolete."

It is becoming evident that to thrive in the future, OEMs must be ready to change and become truly customer- and platform-centric. Dr. Carsten Breitfeld, CEO at Faraday Future and former Head of Engineering BMW i8, has a clear vision for the future of mobility: "We are building smart, interconnected passenger vehicles prepared for the era of shared mobility. And we will provide the digital ecosystem for a revolutionary and unique customer-centric, in-car experience."

A way forward for automotive sales

Since the future of automotive sales will be customer- and platform-centric, it is time for OEMs and dealers to make fundamental changes to the customer interface. Together with industry leaders and automotive experts, we have identified three promising ways to begin.

DIRECT SALES "AGENT MODEL"

VEHICLE SUBSCRIPTIONS AND SHARING MODELS

PLATFORM BUSINESS MODELS

Direct sales with an agent model

Before Steve Jobs opened the first Apple store in 2001, the company relied almost exclusively on independent retailers to sell its products. Today, Apple's own sales channels (online and offline) generate major revenues and help the company build brand awareness and customer loyalty. In the automotive industry, disruptive new OEMs such as Tesla and Byton are following a similar path by operating their own online stores and showrooms in exclusive inner-city locations, where they sell directly to end customers. These companies have all demonstrated the importance of establishing control over sales channels and enabling omni-channel sales journeys. Gerald Krainer, Managing Director & Go-to-Market Europe at Byton, explains: "Direct sales allows us to ensure customer access for all stakeholders and make sure customers truly experience the possibilities that our product will offer." For established OEMs and their vast networks of independent dealers, the functional equivalent to enable direct sales to end customers lies in the agent model.

Gerald Krainer, Managing Director & Go-to-Market Europe, Byton Ltd.

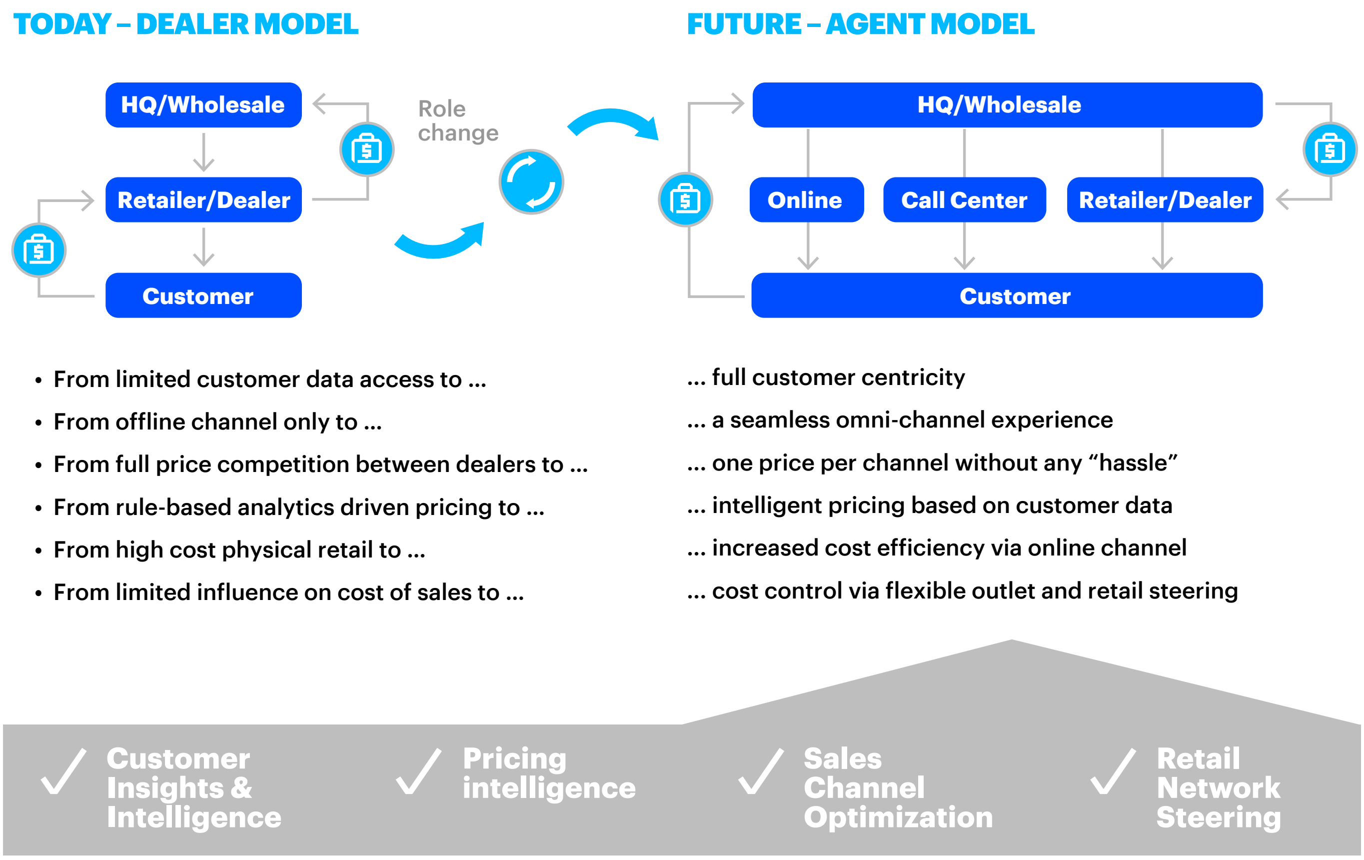
Consumers want to be connected with their digital devices / ecosystem while driving. They demand a seamless integration of car software and their favorite apps. Direct sales allows us to ensure customer access for all stakeholders and make sure customers truly experience the possibilities that our product will offer.

In an agent model, the role of dealers is transformed to that of agents who act on behalf of an OEM. Different sales channels (both online and offline) are combined to offer customers a consistent end-to-end experience. While it looks easy to do on paper, the effort needed to transform the business and the complexities involved are enormous. But the agent model offers OEMs the chance to regain control over sales channels, gain direct customer access, control prices and increse sales efficiency (see Figure 3). Mercedes-Benz seems to have recognized this vast potential. According to Marcus Breitschwerdt, Head of Mercedes-Benz Vans at Daimler, “selling directly to [...] customers can be a key for the future success of Mercedes-Benz.”

Marcus Breitschwerdt, Head of Mercedes-Benz Vans, Daimler AG

Selling directly to our customers can be a key for the future success of Mercedes-Benz. Together with our dealers, we will transform our sales model to enable a truly customer-centric sales experience.

Figure 3: The agent model explained



For OEMs, the agent model holds five major benefits:

1. Access to valuable customer data which is currently only available to dealers

2. Full control over online and offline channels, allowing them to build seamless omni-channel customer journeys with a consistent experience

3. Ability to set a single price across all sales channels to eliminate intra-brand competition

4. Effective steering of sales activities, enabling OEMs to push digital services and new offerings into the market

5. Increased transparency of market performance at the single showroom level, which allows OEMs to continuously optimize the sales network

For dealers, too, the direct sales model comes with significant benefits. Among the most relevant are reduced price pressure due to centralized pricing and lower financial risks. As Antje Woltermann, executive director of German dealer association ZDK, notes, “OEMs’ direct sales activities may be an option that is worth discussing. The prerequisite, however, is that the OEMs then also shoulder part of the investments in stationary retail.” If OEMs and dealers can reach this agreement, a successful move to direct sales can create a win-win situation. In a similar tone, Horst Hanschur, Head of Retail Business Development and Customer Services at Audi AG, points out that his company’s strategy focuses on realizing business potential not only for Audi, but also for its dealers. In his view, direct customer contact will enable OEMs and dealers to jointly “steer the customer journey in the offline and online world.”

But the shift to direct sales requires a massive organizational transformation and a shift in mindset. In an agent model, the OEM needs to acquire a retailer’s mindset. This means that new questions are becoming relevant: What are optimal discount levels? How can additional sales be triggered towards the end of the accounting period to reach headquarter targets? How can stock and logistics processes be optimized? Likewise, organizational change is needed as central sales-related tasks and responsibilities shift from dealers to the OEM.

Horst Hanschur, Head of Retail Business Development, Customer Services, Audi AG

The Audi sales strategy aims in two directions. We want to realize business potential for our dealers and for ourselves. At the same time, we also want to keep system leadership over the sales and aftersales value chain. Digital infrastructure will enable us to get into direct contact with our customers. That means that together with our dealers, we will steer the customer journey in the offline and online world.

Figure 4: The agent model explained

UP TO 4% REDUCTION* IN THE COST OF RETAIL

Due to elimination of intra-brand competition, higher online sales share and centralization of back-office processes.

UP TO $1 BN IN ANNUAL SAVINGS

For an exemplary mid-sized sales region, with average market share, and subject to the average price per vehicle.

TOTAL FTE REDUCTION OF 3–7%

Combining a FTE ramp-up at the NSE level and a FTE ramp-down at the dealer level.

BREAK EVEN WITHIN 2–4 YEARS

Depending on system and process maturity, market characteristics, regulatory complexity, roll-out timing, network structure etc.

COSTS FOR MVP-LAUNCH IN PILOT MARKET
$45–80 million

+

ROLL-OUT COSTS FOR EACH ADDITIONAL MARKET
$14–35 million

+

ANNUAL RUN COSTS FOR A MID-SIZED REGION
$108–168 million

If done successfully, the transition to direct sales can unleash immense financial potential. By exerting price control, OEMs can limit intra-brand competition. Moreover, the centralization of back-office processes in shared-service centers can create substantial synergies and can potentially reduce overall headcount by 3 to 7 percent. “In sum, we estimate a potential reduction in cost of retail by up to 4.0 percentage points, which translates into 8 to 15 percent reduction in overall selling costs. In a mid-sized region, this can generate more than $1 billion of annual savings and support OEMs as their industry changes rapidly (see Figure 4).”

Ludwig Willisch, Head of Region Americas (retired), BMW Group

Despite strict regulations with respect to direct sales and the resulting protection of local automotive dealerships, a direct sales approach will also be the future for the US.

8–15%

reduction in overall selling costs

Virtually all new and disruptive OEMs are counting on direct sales – Tesla, NIO and Byton are just some the most prominent examples. But many established OEMs, too, are starting to launch their first pilots. While Toyota and Mercedes-Benz have done so under their main brands, others have launched spin-offs such as Volvo did with Polestar, Hyundai did with Genesis and BMW did with BMWi. As a result, Ludwig Willisch, former Head of Region Americas at BMW, said he is convinced that “despite strict regulations [...] a direct sales approach will also be the future for the US.”

Vehicle subscriptions and sharing models

Vehicle subscriptions and car sharing are seeing exceptional growth. The reason for this success is simple: "Today's customers demand flexibility and sustainability," says Ulrich Kranz, Interim CEO and In Charge of Technology at Canoo. And these models provide both by enabling flexible vehicle usage. In a subscription model, customers pay a recurring (e.g. monthly or quarterly) fee to get access to one or several models of vehicles which they do not own but still have at their permanent disposal. With the goal of winning new customers and diversifying their portfolio, established OEMs have started offering subscriptions as well. Examples are Care by Volvo, Porsche Passport, Access by BMW and Mercedes-Benz Collection. Additionally, mostly US-based dealerships are offering subscriptions under labels such as Drive Germain, Inride and Drive Options. New players are entering the vehicle subscription business, too. Canoo, which was launched in 2017 by former executives from BMW, Audi and Opel, and was formerly known as eVelozcity, is developing four battery-electric models that are all based on a single "skateboard" platform and will be available exclusively to Canoo members. In addition, large car rental firms such as Avis, Sixt and Hertz are putting their broad geographical infrastructure and brand familiarity to work to sell vehicle subscriptions. This has the added benefit of preventing lot rot and creating continuous revenue streams. Last, many new third-party startups such as Bipi, Cluno and Drover have ventured into the industry and are offering access to name-brand vehicles with flexible terms and competitively priced fees.

Ulrich Kranz, Interim CEO and In Charge of Technology at Canoo Inc.

Today's customers demand flexibility and sustainability. A Canoo membership provides both. All that customers need to think about is where their next adventure will take them.

Particularly in dense, urban areas, sharing models are offering a solution to significantly reduce traffic by enabling higher utilization of vehicles. Coupled with advances in hybrid, electric and fuel cell powered technology, emission-free cities may soon become reality. Additionally, car sharing is making individual mobility accessible to a higher share of the population. With mobility costs potentially decreasing down to 10 cents/km for certain use cases, lower-income groups can be reached. Some estimates predict an 80 percent drop in car ownership in urban areas by 2030. The reason for this is that car sharing will be 4 to 10 times cheaper than car ownership by then, resulting in a 5,600 dollar annual saving per household. But competition is fierce and so far, sharing services have not all been profitable. This was one reason for the merger of Daimler's Car2Go and BMW's DriveNow in 2019.

4 to 10

By 2030, car sharing could be 4 to 10 times cheaper times cheaper than car ownership

Joachim Franz, Head of Customer Experience Management, Volkswagen AG

> *In Volkswagen's transformation from a product-centric automobile manufacturer towards a customer-centric mobility provider, we will change the way we engage with our customers fundamentally. In this transformation, our dealers – the strongest and closest connections to our customers – will continue to play a crucial part in creating customer-centric sales experiences in a multi-channel environment.*

Embracing a new identity as a mobility provider is not always an easy thing to do for established automakers. As Matthias Schrader, founder and CEO of SinnerSchrader (part of Accenture Interactive), points out, established OEMs oftentimes "tend to only digitize their traditional processes." With the right mindset, tools and expertise, however, OEMs are in a good starting position to optimize mobility services and actively address the impending digital disruption. Joachim Franz, Head of Customer Experience Management at Volkswagen, is highlighting the importance of "Volkswagen's transformation from a product-centric automobile manufacturer towards a customer-centric mobility provider" to fundamentally change the way that the company interacts with its customers.

In a similar fashion, Pascal Schmitt, VP Global Customer, Network & Importers at Renault, emphasizes that Renault sees "great potential in new sales formats [and] digital tools", with the ultimate goal of providing a customer-centric and seamless omni-channel experience.

Platform business models

Leading firms such as Apple, Amazon, Facebook and Airbnb are demonstrating the power of platform economics. In automotive sales, new players such as Carwow, Car Guru and mobile.de have launched platforms for private sellers and professional dealers to market their vehicles (new and used) to a large online audience. Customers can conveniently browse the available offerings or simply choose their preferred car model and then receive customized offers from partnering dealerships.

Our survey shows that one third of automotive dealers already cooperate with third-party platforms. If woven into the existing sales processes, platforms provide a cost-effective way for OEMs and dealers to reach a wide customer base and provide a superior sales experience. With Carwow expected to sell 75,000 cars in 2019, the platform will account for more than 5 percent of UK new car sales. This underlines its large sales potential. As a downside, the advertising and sales fees that platforms are charging cut into dealers' already low sales margins, and, depending on their business model, platforms may disrupt OEMs and dealers' direct interface with the customer.

On the upside, platforms enable OEMs to reach entirely new customer segments. In our experience, more than 80 percent of customers acquired are new to the brand. Their average age is around 40, and the share of female customers is roughly 50 percent. As platforms are highly data-driven, they can generate valuable insights on customer preferences and shopping behavior. According to Simon Dixon, founder and CEO of UK-based sales-as-a-service provider Rockar, his firm is "learning from every data interaction, which allows [them] to disrupt the customer journey."

1/3

of dealers are already cooperating with third-party platforms

But there is yet another avenue for OEMs to harness the power of platform economics: Turn the car itself into a platform. Established and greenfield OEMs alike are striving to build ecosystems around their vehicles that enable them to make money from services delivered in-car via apps and APIs. Estimates are that by 2025, almost all new cars will have the ability to connect to the internet. And customers are interested in new in-car services, with entertainment (33 percent), productivity (29 percent) and shopping (12 percent) services among the ones that get the most attention. In fact, 37 percent of customers surveyed stated that they would change their auto brand for better connectivity.

>5%

Carwow already accounts for more than 5% of new car sales in the UK

Alexander Sixt,
CAO and Member of the Management Board, SIXT SE

Customers are demanding smarter, more flexible and more convenient mobility solutions. In times of platform economics, they seek a one-stop shop. Whoever meets these demands best will sell the mobility of the future.

For OEMs, building a platform to market and sell connectivity services can be a lucrative new business opportunity. But making use of such a platform requires setting up an open and scalable technical foundation that third parties can incorporate into their own offerings and extend through their contributions. Just like Apple and Google are taking a cut from every app purchased through the App Store and Play Store, car makers are seeking to participate in location-based services, in-car infotainment and other smart and flexible solutions. Alexander Sixt, CAO and Member of the Management Board at Sixt, is underlining this idea by stating that “in times of platform economics, [customers] seek for a one-stop shop. Whoever meets these demands best, will sell the mobility of the future.”

Conclusion

We believe that the future of automotive sales will be exciting. Global automotive profits are set to nearly double to more than $344 billion by 2030. But revenue will shift away from traditional volume sales and aftersales and move towards those from disruptive business models. This includes revenues from connectivity and data-enabled services, autonomous vehicles, mobility as a service and electrified vehicles. By 2030, these new technologies will account for more than 30 percent of automotive revenues, and their contribution to OEMs' profits will grow exponentially to become the largest profit pool in the mobility industry.

The industry is quickly reaching a tipping point. Those OEMs that fail to revolutionize the customer interface will not only lose sales, they also risk losing their position at the forefront of the automotive industry. With new customer-centric sales and business strategies, such as direct sales, subscription and sharing models, as well as sales made on platforms, OEMs have a chance to tap into substantial new revenue pools that are opening up in the automotive industry. With the right investments into technologies, tools and expertise, established OEMs are in a great position to shape the changes in the industry and thrive in the face of the impending disruptions.

The future of automotive sales starts now.

Industry Experts and Co-Authors

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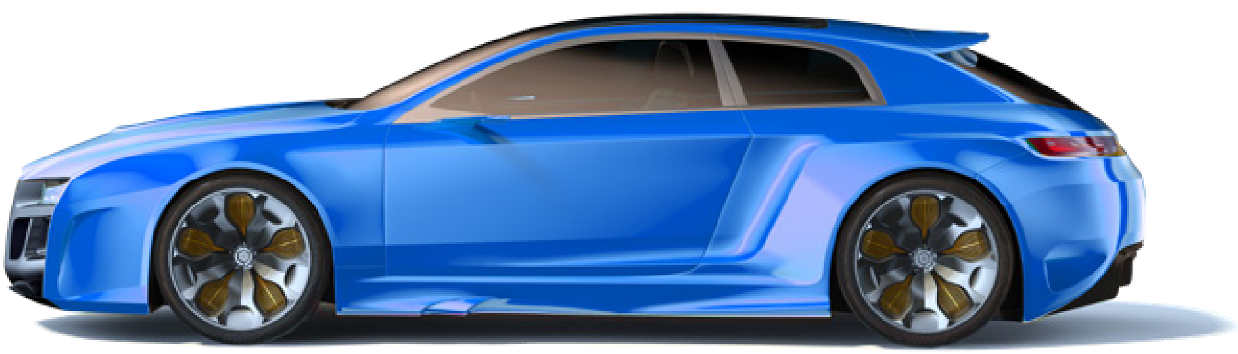

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To find out more about which actions we recommend for automakers, read our full report. The full report will be published in September.

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