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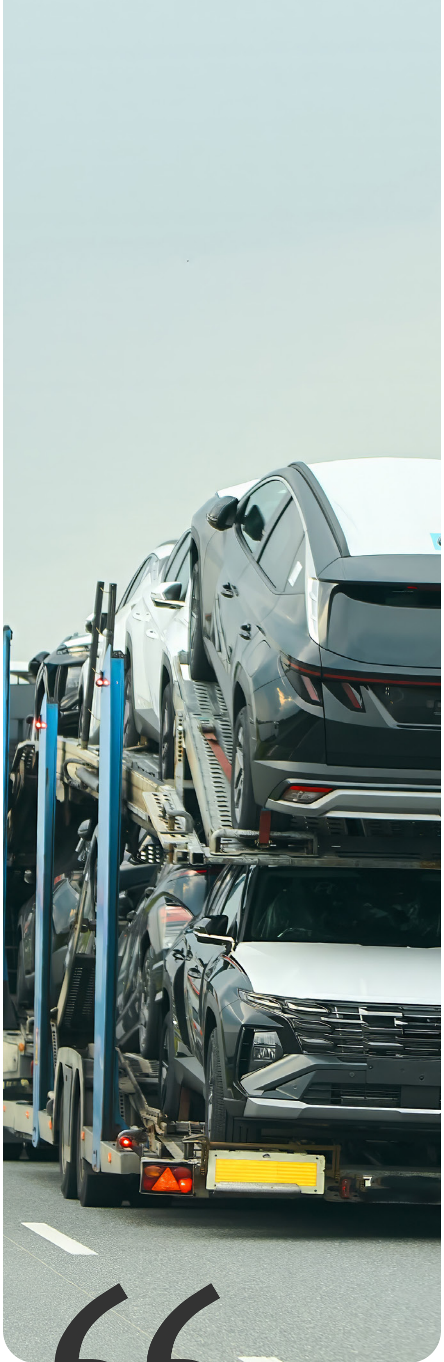
Get ready for the future of automotive distribution

The GCC automotive sector is going through fundamental changes. Reflecting global trends, people now buy cars in a different way, want a different relationship with the distributor, and are looking for different kinds of vehicles. Simultaneously, manufacturers are increasingly selling directly to consumers, pushing distributors aside, while regulations are threatening distributors' position. Unsurprisingly, distributors' margins are narrowing. The traditional value chain is under threat, which means distributors should follow a strategic imperative for the future by adapting through going downstream, entering adjacencies, thinking locally, and getting ready for growth.

The challenge to distributors is occurring in a healthy market for cars in GCC countries, with a growing appetite for battery electric vehicles (BEVs). We forecast that automotive sales should continue growing at a compound annual growth rate of 3-4% to reach 2.3 million units in 2035. Of that 2035 total, we expect around 1.2 million units to be sold in Saudi Arabia. Part of that increase is coming from a growing, young, and urbanized population with greater purchasing power. That demographic group wants BEVs, luxury cars, and alternative ownership models such as car subscription. Consumers are more interested now in leasing than ownership, an option growing fast in the GCC. In some cases, they prefer to rent. BEVs are not widespread, in part due to the lack of infrastructure. However, BEVs could become mainstream over the next decade because of government incentives to buy them and growing domestic production. Already there are two Saudi Arabia-based BEV makers, Ceer and Lucid.

Simultaneously, some automotive manufacturers are changing the distribution model with aggressive market entry strategies. Chinese companies in particular are targeting the region and eroding distributors' margins. There is also the integration of digital and physical sales channels, which allows people to design cars online, cutting out distributors. Changing regulations threaten distributors, particularly laws against market dominance. Technological advances such as connected services and autonomous driving are changing the market and potentially making distributors less relevant.

Distributors do not have the luxury of waiting to see how these developments play out. Rather they should act now in four ways to secure their future in the growing GGC automotive sector.



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1 Distributors should go downstream. Distributors can generate closer customer relationships and more value added downstream. Penetrating downstream opportunities is important as new car sales are likely to slow in the future, in part because of changing ownership models. Downstream market segments include used cars, aftermarket parts, and leasing. That particularly applies to BEVs, which have different aftermarket requirements.

2 Distributors should enter adjacencies. Distributors can provide emergency roadside assistance, accident management, and insurance claims handling. They can meet growing demand for different ownership models through car subscription services and short-term rentals. Another opportunity is providing services that make car ownership more convenient given changing lifestyles. That can mean providing services at people's homes, including refueling.

One means of entering adjacencies is through partnerships. There are potential synergies with established players that can mitigate risks and reduce the capital investment required. For example, distributors can collaborate with infrastructure providers to prepare for the BEV era by providing services such as electric charging stations and battery recycling.

3 Distributors need to think locally. One advantage that distributors have over new entrants is their understanding of their home market. They can put this knowledge to good use by ensuring that the model lineup fits with local market requirements, such as ensuring vehicles are climate-proof and possess long driving ranges. They can form alliances with domestic suppliers and parts distributors to create resilient supply chains. That way customers get the parts they need without waiting for imports to arrive. As part of such cooperation, distributors could take advantage of government policies that encourage domestic production to start manufacturing in cooperation with parts suppliers.

As they take these three steps, distributors should become ready for growth. Their organization needs to be lean and agile, their processes efficient, and their digital technology state-of-the-art. They should acquire and retain the best talent in the sector. Distributors should ensure they have the most efficient geographic footprint. In particular, they can use by cross-brand facilities in smaller urban areas to be more cost efficient. Distributors should sell through an omnichannel offering that includes ecommerce. Their showroom experience must be differentiated, with a stress on providing an exceptional experience when selling luxury brands. As leasing becomes more important, distributors must develop their relationships with financial institutions so that they can offer competitive rates to their customers.

The future of automotive distribution is arriving faster than expected. Within a decade the car buying experience in the GCC will bear no resemblance to today. GCC automotive distributors need to move fast to seize the opportunity.

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