Unlocking the value of digitization in automotive sales and distribution
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About the authors

**Jörg Krings** is a partner with Strategy& based in Munich. He specializes in improving customer-facing capabilities at automotive manufacturers, automotive finance companies, and vehicle distributors/dealers.

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This report was originally published by Booz & Company in 2013.
Digitization is changing the way cars are marketed and sold. Social media, mobile technology, and independent online information sources put customers in charge of a process once controlled by automakers and dealers. But many original equipment manufacturers (OEMs) have been slow to embrace these channels, leaving dealers to fend for themselves as new rivals use digital marketing technologies to siphon profits from the automotive value chain. Automakers must join forces with their dealers to build first-class digital sales and marketing capabilities. This will require fundamental changes in the role of dealers and geography-based distribution systems that weren’t designed for the borderless online marketplace. OEMs that don’t evolve will lose touch with customers and cede more ground to third parties. But those that engage prospective buyers across a range of channels can rejuvenate their sales and marketing and convert digitally minded consumers into loyal longtime customers.
The onset of digitization across a wide swath of the automotive industry and a new generation of consumers weaned on technology are transforming auto marketing, sales, and services (see “Digitization and the New Consumer,” page 15). The traditional combination of mass-market advertising and showroom salesmanship is losing its punch as customers tap online, social media, and mobile channels to gather the information they need to make better purchasing decisions. Meanwhile, in-vehicle digital technologies are quickly redefining the after-sales market.

Today, two-thirds of buyers start their search for a new or used car online. More and more of them decide what to buy before setting foot in a dealership, often reducing the dealer’s role to providing test drives and delivering the car.

Major auto manufacturers have been slow to recognize the growing importance of online and mobile marketing, concentrating their digital investments on in-vehicle technologies such as telematics.¹ Their online sales efforts have been fragmented and oriented mostly toward brand and product awareness. Many have not yet unleashed the power of digital technology to generate leads, convert them into sales, and build fully integrated, long-term relationships with customers. And even when original equipment manufacturers (OEMs) have focused on new technologies, few have tapped the full potential of these innovations as sales and marketing tools.

A recent Strategy& survey of auto dealers in Germany and the United Kingdom reflects widespread concern over the effects of digitization and the relatively slow response by OEMs.² Additionally, we see anecdotal evidence indicating the same dynamics are playing out in North America.

OEMs can start to reclaim the initiative in digital sales and marketing by leveraging troves of available customer data that hold the potential for the development of powerful multichannel strategies. Working with dealers, they can create seamless systems that drive continuous
engagement with customers at every stage, from building brand awareness and selling vehicles to service and parts transactions.

It will be difficult to reap the full potential of digital sales and marketing techniques within the confines of established automotive industry structures. Automakers should follow the lead of other industries and adopt new sales and distribution models that allow customers to drive transactions online from beginning to end. In the process, the role of dealerships traditionally centered on geographic territories must evolve to fit the digital age.
Independent players such as auto review sites and online car brokers are using digitization and the Internet to penetrate the downstream automotive value chain, taking advantage of OEMs’ failure to formulate coherent online marketing strategies of their own. They are gaining influence over buying decisions and chipping away at industry profit margins by providing pricing transparency along with other information that helps customers drive harder bargains.

New and used vehicle sales platforms, such as Autoscout24, Autotrader.com, Cars.com, and Mobile.de, facilitate fast and easy price comparisons. Meanwhile, traditional auto dealers are circumventing the territorial sales restrictions of OEMs’ franchise networks by selling directly to consumers through websites. Some online brokers in Europe offer discounts as deep as 30 percent on vehicles from multiple brands and dealers. In parts and service, brokers like Autoscout24, Reifen24.de, and Reparaturpilot.de are squeezing the lush margins of the repair business that many dealers depend on for their profits. New business models such as DriveNow, Hertz on Demand, and WeCar by Enterprise are springing up as telematics and online technologies drive a convergence of vehicle sales, leasing, rentals, and sharing.

Even as these newcomers demonstrate the power of digitization in auto sales and marketing, OEMs lag behind in building the capabilities needed to compete. Other industries with multitiered distribution systems have adapted more quickly than automakers. Clothing companies, electronics retailers, and even pharmacies have created optimal online shopping experiences for customers. Though these industries differ from automotive in important ways, consumers expect the same kind of experience whether they’re shopping for a car or a cardigan.

To start, automakers need fully developed multichannel capabilities that transfer customers seamlessly from online/mobile channels to dealerships and call centers, driving the process from initial inquiry to sales conversion. But a quick review of major OEM websites reveals numerous gaps in their online sales and marketing systems.
For example, many OEM sites don’t propel the sales process by referring visitors to a nearby dealer, or alerting dealers that a prospective customer has visited the site. They make little use of customer insights generated online, don’t use their websites to drive parts and service business, and fail to provide easy one- or two-click access to dealers or call centers. Their mobile apps offer mostly information and games, rather than direct customer interaction. OEMs’ approach to used car sales on the Web is fragmented, with many using multiple platforms that sometimes include other brands.
The strongest evidence of the impact of digital sales and marketing comes from dealers, which see it firsthand every day. Fully 100 percent of dealers in Germany and the U.K. surveyed by Strategy& believe that customers have become better informed since online information services came into widespread use over the past several years, and 92 percent say car shoppers mention these sources in conversations with sales representatives. Ninety percent say they’ve seen a change in customer expectations and behavior in the last five years. Most strikingly, more than 90 percent of surveyed dealers say more customers are choosing a brand and model before visiting a dealership.

Some 80 percent of the dealers say they drive their own online sales and marketing, independent of the OEM. Yet few feel well equipped for the new era of digital sales and marketing, with only 13 percent in Germany describing themselves as “rather well equipped” to compete online. They want OEMs to help by sharing more customer information and developing coordinated multichannel strategies. Dealers clearly see digital methods — including websites, e-mail newsletters, smartphone apps, and online advertising — as the keys to reaching buyers earlier in the decision-making process, and the areas where support from OEMs is most lacking.

Dealers in Germany say OEMs should take the lead in digital sales and marketing, while their counterparts in the U.K. say it’s the dealers’ responsibility. But a majority of dealers in both countries want OEMs to shoulder most of the costs of building fully integrated digital sales and marketing systems.

Dealers also need practical help from OEMs, particularly in digital customer outreach. Some requests are simple, such as referring OEM website visitors to a nearby dealer, providing online newsletters, or using digital marketing material that’s tailored to the interests of specific demographic groups. Dealers also want advice on improving their websites and expanding their presence in social media. Other concerns focus on the technical side, such as the need for seamless integration of dealer and OEM software.
Above all, dealers want OEMs to share more information about customers. To compete with online rivals, dealers need customer data earlier in the sales process, and better tools for reaching out to customers who are in the early stages of car shopping.

But only 30 percent of dealers say they exchange data to the fullest extent possible with their OEMs, and 44 percent say they exchange little or none. Concerns about protecting confidential information, data quality problems, and inadequate software interfaces between dealers and OEMs all loom large as contributing factors. (For additional views of the data, see Exhibit 1, below, and Exhibits 2 and 3, next page.)

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Exhibit 1
Digitization’s future impact

Where do you as a dealer see the largest impact of digitization in the vehicle business in the future?

- 44% New vehicle sales process (customer interaction, marketing, lead management)
- 28% Digitization in the vehicle
- 14% Used vehicle or after-sales
- 8% New business models (e.g., car sharing)
- 6% All of these

Source: Strategy& analysis
Exhibit 2
Digital readiness

Overall, how well equipped do you feel to sell vehicles in a digitized world?

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<th>Well equipped</th>
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<td>16%</td>
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<tr>
<td>18%</td>
<td>8%</td>
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<td>50%</td>
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Source: Strategy& analysis

Exhibit 3
Online independence

Do you drive your own online activities, independent of your OEM? If yes, which activities are those?

<table>
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<tr>
<th>Own website</th>
<th>Online markets/platforms (Mobile.de, Autoscout24)</th>
<th>E-mail/newsletters</th>
<th>Apps/social networks</th>
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<td>41%</td>
<td>33%</td>
<td>23%</td>
<td>18%</td>
<td>21%</td>
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Source: Strategy& analysis
The road ahead for OEMs

If they leverage their inherent advantages and build capabilities that set them apart from competitors, OEMs can still win in a digitized auto marketplace. But this requires investment, organizational changes, closer collaboration with dealers, and a new relationship with customers.

OEMs have the size to create economies of scale in digital sales and marketing, and the resources to make the necessary investments in new technologies. They will find that some digital functions — such as data aggregation and analysis, or creating online content — should be deployed centrally because of the scale required.

Their investments should go beyond interactive marketing campaigns and mobile apps for car buyers. Investments in the dealer network are also essential to keep the overall OEM system competitive in a digital marketplace full of new competitors.

As they build multichannel capabilities, OEMs must take care that dealers don’t become mere order takers and delivery outlets. Dealers can and should continue to play their crucial sales role, aided by the leads, customer insights, and other data that OEMs can gather with digital technologies. At the same time, OEMs must create fully digital channels for customers who prefer to drive the entire process online with no intervention by the dealer.

Automakers need to develop two sets of “table stakes” capabilities that will allow them to compete in the digital marketplace, both today and tomorrow. First come the immediate imperatives — the fundamental building blocks of a fully functional digital sales and marketing operation. Next, you’ll need a set of higher-order, essential capabilities that will keep you in the game going forward.
Immediate imperatives

OEMs have to act quickly to meet the basic competitive necessities of digitization. Today, these include the following:

- Establishing a presence in key digital channels, including their own websites, online video, mobile sites, apps, and social media
- Creating targeted content for each channel and customer segment, rather than just replaying mass-market television commercials online
- Optimizing online advertising and marketing strategies across paid search, display, and mobile ads
- Maximizing their digital selling power by adopting the best practices of online retailing, such as sales “calls to action,” sales desk/call center integration, an end-to-end purchasing process, and easy usability (for example, not requiring a customer to click through five screens to get a dealer contact)
- Properly linking the customer interface to internal processes and operations in order to capture the full potential from the customer dialogue

Competitive necessities going forward

Meeting the immediate imperatives of digital sales and marketing will get OEMs into the race. But they'll fall behind again if they don't build on those threshold capabilities. To keep pace in the ever-evolving digital arena for the long run, OEMs will need to add even more sophisticated capabilities:

Harnessing big data: The ability to extract the full value of customer data generated online and offline is critical. Customer information, analyzed and converted into actionable intelligence, is the key to successful digital marketing. Nobody in the auto industry has better access to customer information than OEMs, which are uniquely positioned to capture insights about customers from the early stages of the purchasing process through after-sales services. And new in-vehicle digital technologies generate rich streams of data that can help OEMs understand how customers use their cars over longer periods of time. By analyzing this data and sharing it with dealers, OEMs can generate additional value at every stage of the customer relationship.
**Mastering integrated cross-channel sales and marketing:** OEMs must move beyond traditional silo-based service delivery systems. They need to create a holistic process spanning marketing, sales, and after-sales interactions that operates through smooth interfaces between the OEM, national sales companies, importers, dealers, service providers, and customers. (This will require a common technology backbone.) A key benefit of this approach is better lead conversion, allowing OEMs to capitalize on the opportunities that flow automatically into their online channels by forwarding leads to the retail network and ensuring that sales representatives follow up on them. Ultimately, the goal is to integrate the customer relationship along the entire vehicle value chain and across all channels (including online, mobile, social app, and in-vehicle digitization).

**Creating truly smarter cars:** New digitization and telematics technologies enable OEMs to increase customer insights, vehicle efficiency, integration, and customization. For example, a smartphone plugged into an onboard communication system can transmit information about the driver’s travel preferences that the OEM can use to create customized offerings.

**Cultivating closed-loop ecosystem-based innovation:** OEMs can improve product development and prototyping by using digital technologies to bring dealers and customers into these processes.

**Developing digital talent:** Attracting and retaining employees with the right skills for the digital era is essential. This may require new approaches to recruiting and talent development, such as centers of excellence, culture change programs, partnerships, and other methods of tapping digital expertise.

**Conclusion**

Reengineering an automaker’s sales and marketing systems to compete in the digital marketplace is difficult, disruptive, and expensive. Big changes in the OEM value chain, internal processes, and dealer relationships are necessary. But as customers and new competitors embrace digitization, OEMs have to get on board. Those that develop strong digital sales and marketing capabilities will position themselves to capture a new generation of auto buyers who expect to do business online. Those that miss this opportunity will tie their futures to the dwindling ranks of digitally averse consumers.
**Digitization and the new consumer**

Consumers born after 1990 will alter the automotive market as they become car buyers during the next 10 years. Automakers face a fundamental challenge in meeting the expectations of these “digital natives,” whose priorities, habits, and attitudes differ in important ways from those of older consumers. More than any other group, they conduct their lives over the Internet, relying on it in their work, shopping, and social lives. Steeped in technology almost from birth, many ascribe more status and prestige to new electronic gadgets like the latest iPad than the latest new car model. In fact, many will eschew outright car ownership in favor of car sharing or other alternatives.

These trends will become visible most rapidly in emerging markets, whose demographics and purchasing patterns differ from those of established markets. For example, the average Chinese new car buyer is in his or her 30s and relies heavily on advice from family and friends in purchasing decisions. The average German car buyer, by contrast, is over 50 years old. In addition, car buyers in emerging markets often have chauffeurs or drivers, making backseat connectivity and comfort more important.

Whatever mobility model these new consumers choose, they’re a rich target market for new digital automotive technologies. They’ll be quick to embrace features such as sensor technology that makes driving safer and easier, digital navigation systems, onboard information services, and, of course, mobile Internet connections.

The place to find the new consumer is online. Today in Germany, for example, the average time spent online daily is 83 minutes. Among 14- to 29-year-olds, 98 percent use the Internet. The average daily Internet consumption time in this age group is 150 minutes.

Digital channels are evolving beyond their early role as venues for expanding a brand’s reach and wooing buyers. As online shopping grows, more and more transactions take place entirely on the Web. Companies are also discovering the power of digital channels to lock in customer relationships and drive repeat business over the long term.

At the same time, technologies such as social media liberate customers from their traditional role as passive targets for advertising. Digitally engaged consumers have turned this one-way communication into a multilateral exchange, posting online product reviews, helping to build brands such as Google Fiber and Instagram, and fighting commercial practices they dislike through review sites like TripAdvisor.

Automotive companies must tailor their products, marketing strategies, and customer interactions to the preferences of these consumers. Above all, they should understand how the explosion of online auto information sources has changed car buying into a complex nonlinear process that exposes buyers to numerous influencers. Car shoppers have become much more likely to add or remove brands from their list of possible choices at any stage of this process. But the opportunity for influence is greatest when the customer is starting to research cars online. At this stage, only about half have decided whether to buy a new or used car, and only 30 percent have zeroed in on a particular model.

Online media also influence a consumer’s point-of-sale decision (20 to 30 percent of buyers locate dealers online). This pushes traditional bricks-and-mortar dealerships further back in the purchasing process. Gone are the days when customers visited dealerships early, looking for information and ready to hear a sales pitch. Many buyers today decide what and where to buy before entering a dealership.³

Without effective digital outreach at this critical early stage, automakers have little chance of regaining their lost influence over car buyers.
Endnotes

1 Strategy&, “2012 U.S. Automotive Industry Survey and Confidence Index.” Eighty-five percent of respondents ranked in-vehicle connectivity and entertainment as one of the top three technologies most likely to see widespread adoption over the next five years.

2 Strategy& car dealer survey in Germany and the United Kingdom, 2012.

3 Strategy& car dealer survey in Germany and the United Kingdom, 2012.