

EUROGROUP CONSULTING

Automotive Distribution Switch to Digital Services Final Presentation

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Executive Summary



The following report reveals the shift of the automotive industry from traditional structures to a digitally connected smart industry.

High expectations of consumers, who are used to digital devices and applications in their daily lives push the industry to take actions.

Lower entry barriers open the door for new players to disrupt the market by developing smart services with high appeal and usability to end customers.

The report maps existing services in the sales and after-sales process but focuses on after-sales. It shows where the crucial pain points for the customers lie on this journey. This leads into the conclusion where a new customer journey is proposed. The reinvented customer journey solves the current pain points and suggests a new business model for potential new services and their implementation.

Objectives



Automotive Service Inventory

- Identification of existing services, service providers and car manufacturers
- Mapping and creating service inventory with ID cards



Reinvent Customer Journey

- Identification of new services that are not implemented but proposed in the near future
- Development of innovative concepts for the sales and after-sales process



Potential Business Model

- Business model for new services
- Financials and strategy for implementation



Stakeholder Benefits

- Customer benefits analysis
- Dealer benefits analysis
- Car manufacturer Benefits Analysis

Methodology

Desk Research

- Trend identification
- Customer journeys
- Company reports
- Case studies

Survey

- Qualitative and quantitative analysis
- Challenges, trends, expectations, pain points

Benchmarking

- Differences to other industries especially regarding digitalization

Personal Interviews

- Qualitative analysis
- Challenges, trends, validation of assumption and concepts

Data Sources

- Company reports
- Case studies
- Start-up scanner
- OEM websites

Feedback Sources

- 1 Management Executive
- 9 Industry Experts
- 12 Car Dealerships
- 152 Customers

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1. Introduction

Overview of the automotive industry

The automotive industry includes sectors associated with the production, sales and after-sales of motor vehicles. Worldwide the automotive industry is one of the biggest industries with sales of approx. 77.7 m passenger cars in 2017. In Europe about 12 m people are employed in this sector, which is responsible for 4% of the European GDP.

Radical changes transform the industry. Currently, it develops from a homogeneous industry with only minor changes and inventions over the past centuries to an uncertain future. Electric vehicles, self-driving cars and digitalization disrupts the industry. The need for less CO2 emissions of the vehicles imposes huge costs for the industry to keep pace with governmental regulations. High customer expectations push the industry to ever new investments in services and inventions.



Source: Statista, McKinsey,

Automotive market per region



Europe: Major markets - Germany, France & Italy

- Creating 12.6 m jobs, 5.6% of European work force
- Manufacturing 19.2 m vehicles each year
- Driving clean – EU vehicles are the cleanest and safest



United States of America

- 17.6 m vehicle sales in 2016
- Expected downturn in 2018 due to victimization of economic cycles, higher car loan interest rates & an expected flood of vehicles in used car market



Asia: Major markets - India, China & Japan

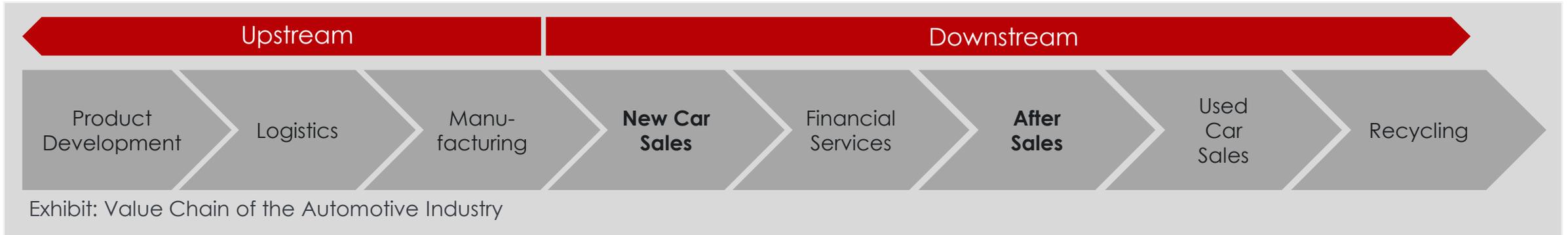
- India, 24 m vehicles produced in 2015/16
- China, largest global automotive market
- Plans > 200 m in registered vehicles by 2020
- Japan, 3rd largest producer in the world



Source: Forbes, EY, Deloitte, McKinsey, Strategy&

November 2017

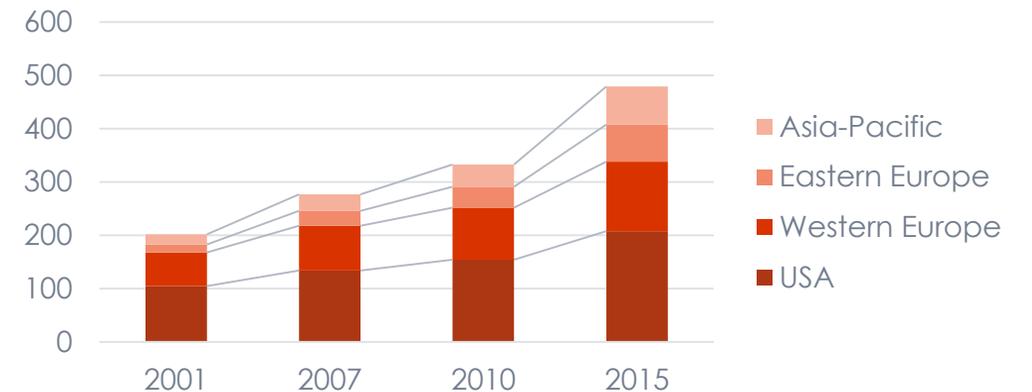
Automotive aftermarket



Automotive aftermarket (Downstream) is the secondary market of the automotive industry after the sale of the automobile by the original equipment manufacturer (OEM) or dealership to the consumer.

Industry experts expect the aftersales business to become the **most important business segment** for the automotive industry in the future.

Global aftermarket value 2001-2015 (bn Euro)



Source: Capgemini, Datamonitor

Key Trends and Challenges



1.

The saturated vehicle trade in Europe along with increasing competition and fading contribution margins puts pressure on dealerships.



2.

Discount battles in new car sales make the after-sales an increasingly important source of revenue for car dealerships.



3.

Revenue - Dealerships already account 2/3 of their operating results with the aftersales service business and only 1/3 with the sales of new cars.



4.

Structural changes and digitalization - 85% of executives state that the digital ecosystem and its offerings will be the main source of revenue and not the car itself.

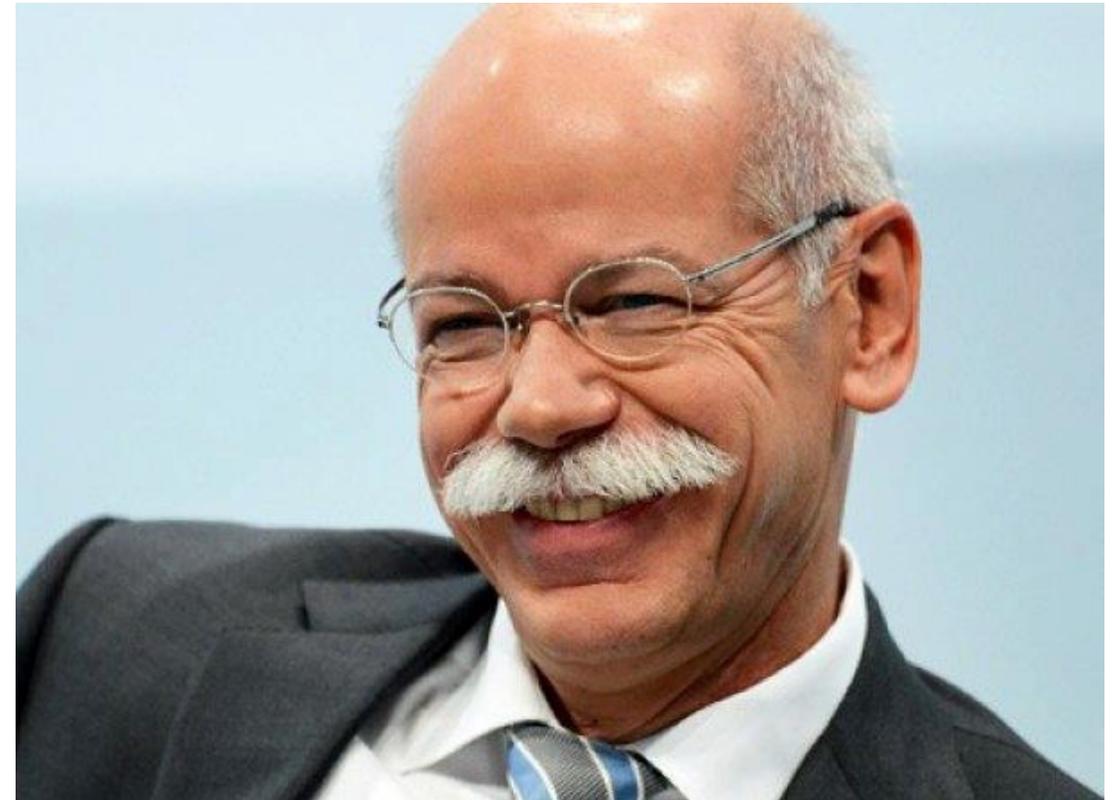
- Manufacturers & distributors are confronted with strategic and operational challenges to secure and expand the service business of the future
- The after-sales business is becoming an even more important source of revenue and a central multiplier in customer loyalty and acquisition
- Primary objective is to explore value-added potentials & new digital profit pillars

Need for digitalization

Today's automotive ecosystem is characterized by three major forces: Ever evolving competition, rapid technological advances in digital & connected ecosystem and increasingly empowered consumers. These three forces are providing new opportunity for innovation, business model disruption and customer engagement as new players enter the market and begin to capture a share of the value stream. To embrace these forces, automotive retailers will need to consider new retail models and update a distribution channel that hasn't changed significantly in the past century.

“The development of the digital interconnectivity will continue to gain massive momentum. Global competition is no longer only won in the real but also in the digital world.”

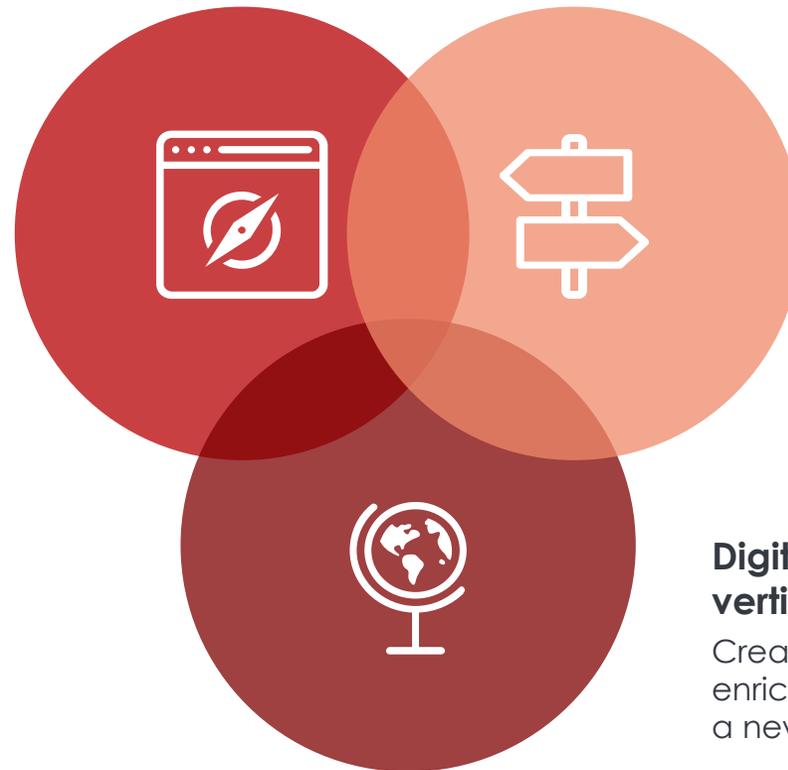
Dieter Zetsche, CEO Daimler AG



Three dimensions of digital transformation

Digitalization of existing service offerings and products

Simplify the service delivery, create new customer touchpoints and connect components of the service portfolio.



Introduction of new innovative digital business models

Rethink the conventional service scope and be disruptive.

Digitalization and integration of vertical and horizontal value chains

Create Alliances and Partnerships that enrich your service portfolio and give you a new perspective.

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2. Data Collection

Gathering first hand industry insights

In the following part, the key findings of three published questionnaires are presented. Those questionnaires were handed to: industry experts and management executives, car dealers and customers of the automotive industry.

A total amount of responds of 1 management executive from Daimler AG in Germany, 9 industry experts from different car manufacturers, 12 car dealers and approx. 152 customers were gathered.

The analysis of the results led to various conclusions: The car industry is shifting from mass production to product customization. In addition the concept of connected car is becoming a reality and will be the major breakthrough in the following years. Furthermore building on customer loyalty by making an engaging digital experience is at the very core for success on the after-sales services and major customer expectations are related with pick-up and drop assistance as well as an online app that will ease the access to all the car manufacturer services.



Industry experts & management executives

 <p>Shift from product-driven to customer-centric approach</p>	 <p>Connected vehicle data is the major breakthrough</p>
 <p>Platforms, portals, apps will be finally reach the after-Sales</p>	 <p>Increasing competition from non-established service providers</p>

Results

The **major trends** identified by this group are the growing of e-commerce (B2B and B2C), a need for the digitalization of services and adding connected car features. **Key challenges** are such as maintaining car sales price while improving connectivity, improving online customer service and experience, better managing time & cost constraints and adapting to changes in the demand.

- ✓ Create innovative programs/ partnerships with start-ups
- ✓ Offer customized after sales service
- ✓ Add features in connected cars (e.g. monitor data)
- ✓ Focus on price, quality and time to service
- ✓ Invest in young HR to understand current needs
- ✓ Create an engaging digital experience

Source: Interviews with 1 management executive, 9 industry experts

Car dealerships

 <p>Manage trust and complexity to build on customer loyalty</p>	 <p>Reinvention and sustainability of car dealers</p>
 <p>Shift to digital demand and online purchases</p>	 <p>Risk of substitution due to digitalization of services</p>

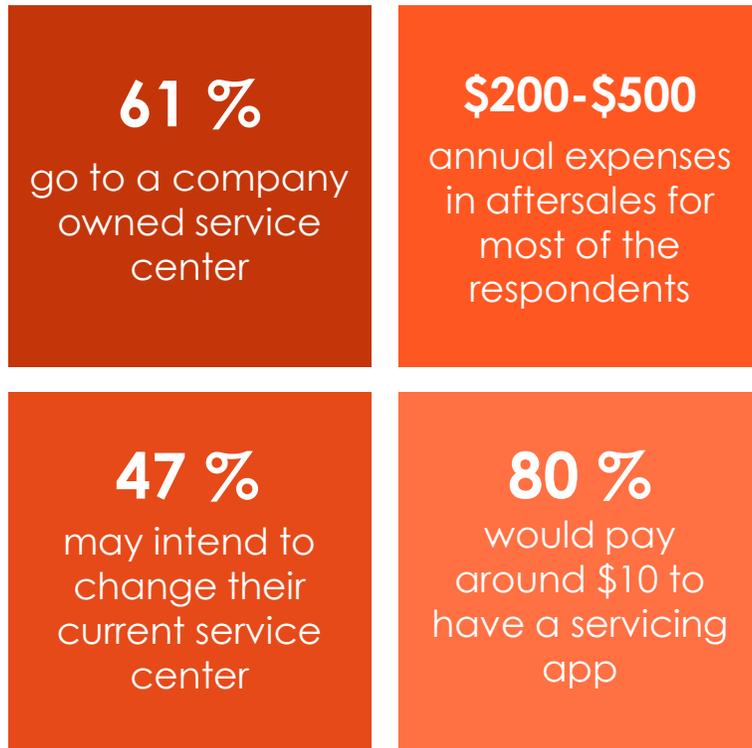
Results

The **major trends** identified by this group are a growing tendency to check for car information online and a decrease in diesel-engine car sales. **Key challenges** are such as improving after-sales services while decreasing investments due to “e-mobility” and a complete digitalization of the after-sales services without falling under the substitution effect

- ✓ E-customer globalization
- ✓ Online pick-up and drop services
- ✓ Increase appointments fidelity
- ✓ Better coordination and quality of after-sales work performance
- ✓ Focus on price, quality and time to service
- ✓ Strengthen online support and sales

Source: Questionnaires with 12 dealerships

Customer survey



Source: Survey with 152 customers

Results

The **main trends** show increasing customer expectations. Transparency and quality are the most relevant service dimensions and once again internet plays an important role in the aftersales market. Customers value pick-up and drop assistance in car dealers and would find easier to access the services with an online app

- ✓ On-demand, online services
- ✓ Detailed digital report on services performed
- ✓ More transparent customer platform
- ✓ Pick-up and drop service
- ✓ Repairing process follow-up option
- ✓ Reduce price and waiting time to improve quality

Innovative and new services



Cihon.cn

Provides simple diagnosis and car assessment to car owners who lacks knowledge of the car condition and maintenance. Cihon.cn has developed an intelligent diagnosis and data application system based on IOV (Internet of vehicles). Its featured products include Cheyi automobile security assistant, Cheyi remote intelligent diagnosis and data application system, etc. In December 2016, Cihon.cn got an investment in Series Pre-B fundraising from GAC Capital, and Desay SV Automotive

DIY after-sales
&
predictive
maintenance



51Chebao

51Chebao is an e-commerce platform focused on auto maintenance services. The platform has a developed standard maintenance specifications and recommends suitable services and service providers to car owners. It has acquired more than 500 registered users within three months without any promotion activities. The company has established cooperation relationship with 20 car maintenance shops in Shanghai.

Online purchasing
of services



Service King

Real-time online repair tracking tool. Customers receive real-time information about the current status of the repair process. The service is offered 24/7.

Real-time car
service status

Source: Techcrunch, Cihon, 51Chebao, Service King Webpages

Innovative and new services

Koovers



It provides best-in-class technology with exceptional service standards to professionalize and simplify the post-warranty car segment, making car servicing a truly enjoyable routine. Its focus is on providing reliable, affordable and transparent services in terms of cost and process. It provide services like online service registration, online estimates, service tracking and online service history of the repaired cars.

Service tracking

Buy Carparts



Marketplace for new/old spare parts. Works with selected partners and optimal cost estimation enables them to provide a wide product range at very attractive rates. Their focus is on quality, competence, good price and fast delivery(within 48 hours). The company provides discounts and offers to attract and retain customers.

Market place for spare parts

Easy Auto Service



It is the first booking platform for vehicle inspections with the convenient pick-up and delivery service at cheap, Germany-wide fixed price. The repair services on vehicle is carried out by the partner companies(certified and audited) near the pick-up and delivery point. Their focus is on providing quality service with ease and convenience. They also provide car cleaning services, mobility guarantee and repair financing.

Pick and drop service

Source: Koovers, Buy Carparts, Easy Auto Service Webpages

Existing Services



Tesla

Shop where customers can buy spare parts and other maintenance products with vehicle identification number of the parts that fit the customers car. Through this service 'do it yourself' gets promoted and it can help in easy changes that can be made by customer himself. The customer also has the privilege to buy the spare parts online to get it at a comparative prices.

eCommerce Shop/ Online booking of services at Workshop



Maruti

Maruti Suzuki Autocard is a unique loyalty reward program designed exclusively for the owners of Maruti Suzuki Cars. The Autocard program is an engaging and unique initiative for customers to enjoy maximized benefits and valuable experiences. This provides with 3% value back and much more Exclusive discounts on car exchange. It also offers exciting rewards on car referrals

Autocard+ Loyalty program



Land Rover

If your vehicle breaks down, pressing the InControl Optimized Land Rover Assistance button will transmit your vehicle's location and "health" information to the Land Rover recovery service, enabling it to respond and minimizing any delay to it resolving the issue that led to the vehicle breaking down.

24 hrs road assistance

Source: Tesla, Maruti, Land Rove Webpages r

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3. Recommendations

Transforming the customer journey

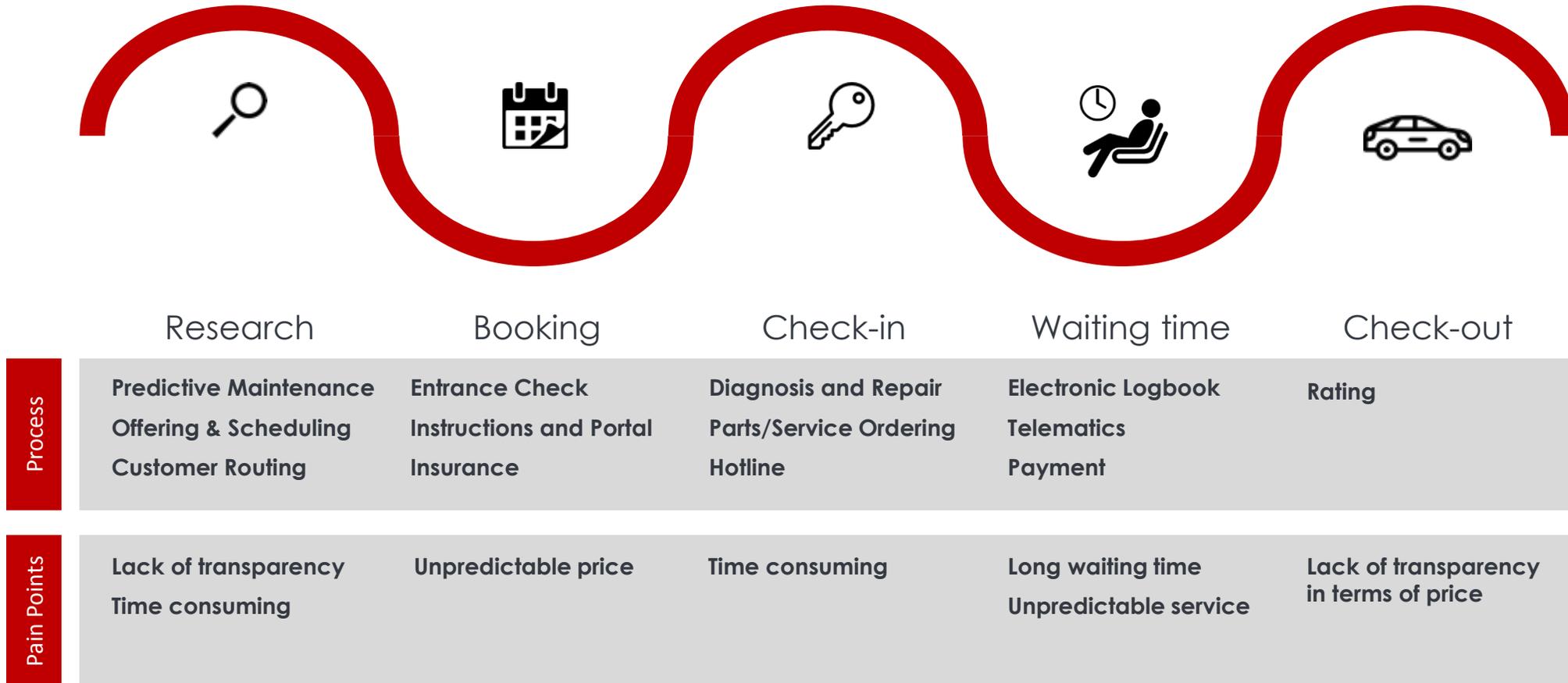
The reinvention of the customer journey in the after sales market requires the identification of the main pain points a customer experiences during his journey. Nowadays, the current journey consists of five stages: Research, booking, check-in, waiting time and check-out.

Based on the results of the customer survey, one out of five respondents experiences the long waiting time as the most negative part of their visit. Further negative concerns are related to the intransparency regarding price and services and the importance of good quality, either in customer service and/or of the work done.

Hence, the main pain points are in connection with a lack of transparency, price, time and quality. Service provider will need to focus on continuous connection and interaction with customer (i.e. online scheduling) and consumer of mobility solutions and services via new technologies (i.e. connected cars). Furthermore vertical and horizontal integration of new technology concepts are important to increase efficiency and quality.



Identifying the main pain points



Source: Team Analysis, Questionnaire, Protema, Accenture

Overview of the main pain points



Source: Team Analysis, Questionnaire

Service platform

Service Booking

Convenient and fast booking process via online platform



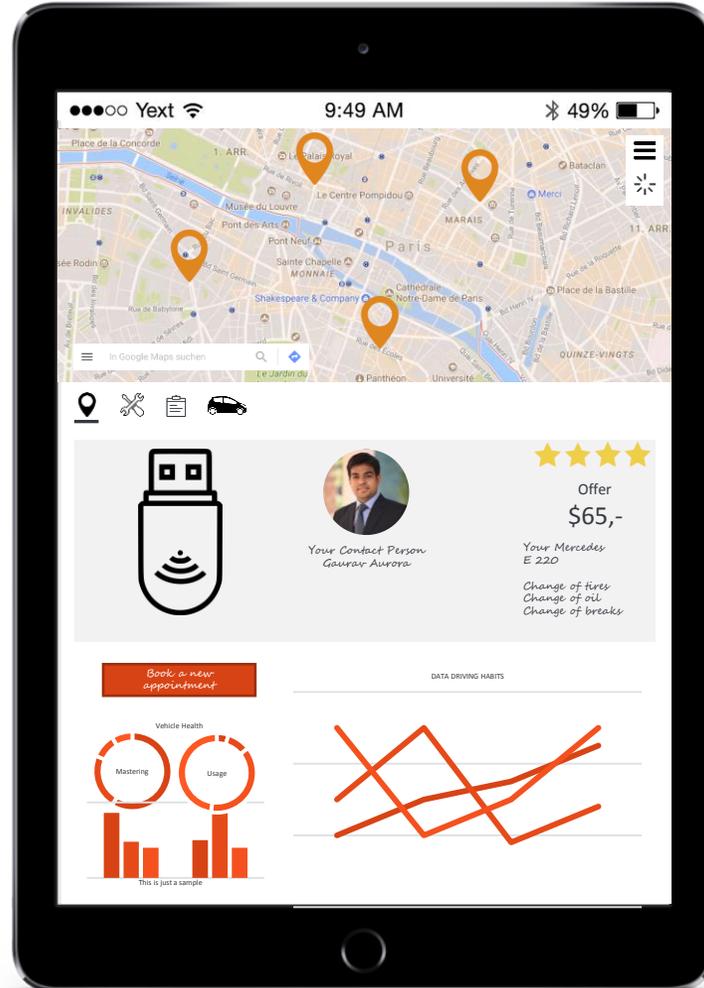
Predictive Maintenance

IoT and car health data ease the planning of maintenance



Pick and Drop

Convenient pick up of the car for maintenance and return afterwards



Push Notifications

Push notifications enable further consultation if plan/price changes



Service Tracking

Real time data provides more transparency about current status



Rating / Feedback

Set incentives that the service level is high and stable



Service descriptions



Service Booking

The current process of service booking is not uniform and usually very traditionally through offline-appointment making. This is often time consuming and not appropriate to the digital time time-age. Through a centralized service offer, customers are getting the opportunity to easily book and manage their appointments with a one device solution.

The relationship between dealers and clients gets closer and communication will be easier.



Pick and Drop

At the moment, customers face long and time consuming trips to their service providers. The feedback from our questionnaires identified this as the major pain point in the after-sales customer journey. The solution is an optional service, providing the customer with an convenient pic up of the vehicle at his doorstep and a final delivery of the cleaned car after the maintenance service.

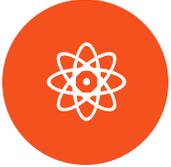


Predictive Maintenance

Customers are often confronted with unavailable spare parts when having service and maintenance appointments with their dealers. Oftentimes, another visit at the service provider is needed, which is very time consuming for the customer. Through predictive maintenance, the vehicle sends the service provider all the necessary information for the appointment upfront. This gives the service provider the necessary time to plan the appointment and order the necessary spare parts upfront.

Source: Team Analysis

Service descriptions



Service tracking:

Lack of transparency is one of the main pain points in the after sales process. Customers are sometimes charged for services/new parts, which leads to unscheduled expenditures and dissatisfaction with the service provider.

The service tracking feature provides transparency for the customers on the progress at the dealer through live tracking. The customer is notified regularly about the progress of his vehicle, the current location and other details as parts replaced and/or added, duration of completed and open service.



Push Notifications:

Customer often complain about surprises in their final bills because additional parts or services were realized, over and above what the customer has signed up for in the first place. For the customer it is very difficult to estimate the necessity of the service and has to trust the service provider. Many customers had been disappointed more than once and therefore distrust their service provider.

To avoid confusions and to regain trust push notifications can quickly inform the customer if the plan/prices of the services/new parts are realized & added during servicing and help the customer understand the Hows & Abouts of this new requirement, the urgency of this new request and seek his permission to accept or deny it.

Service descriptions

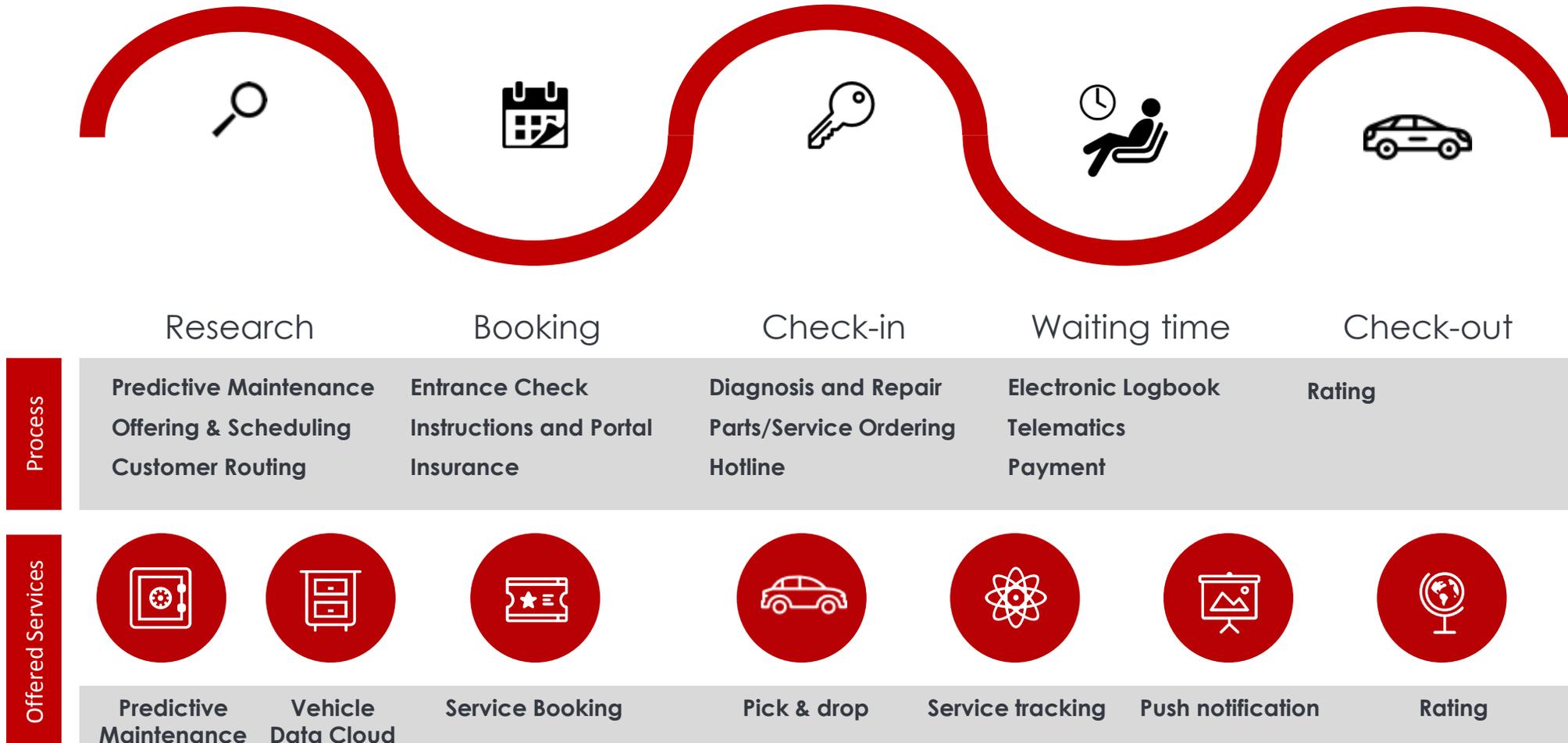


Rating/Feedback:

For service providers the gathering of customer feedback after their visit is hard to get. Currently, several third parties provide tools, which facilitate this process in a highly fragmented and uncoordinated market.

The tool provides bundled and centralized feedbacks for service providers on a centralized server. The industry profits through a bigger pool of customer data and a more effective process of gathering information, analyzing it and draw relevant conclusions.

Reinventing the customer journey



Source: Team Analysis, Questionnaire, Protema, Accenture

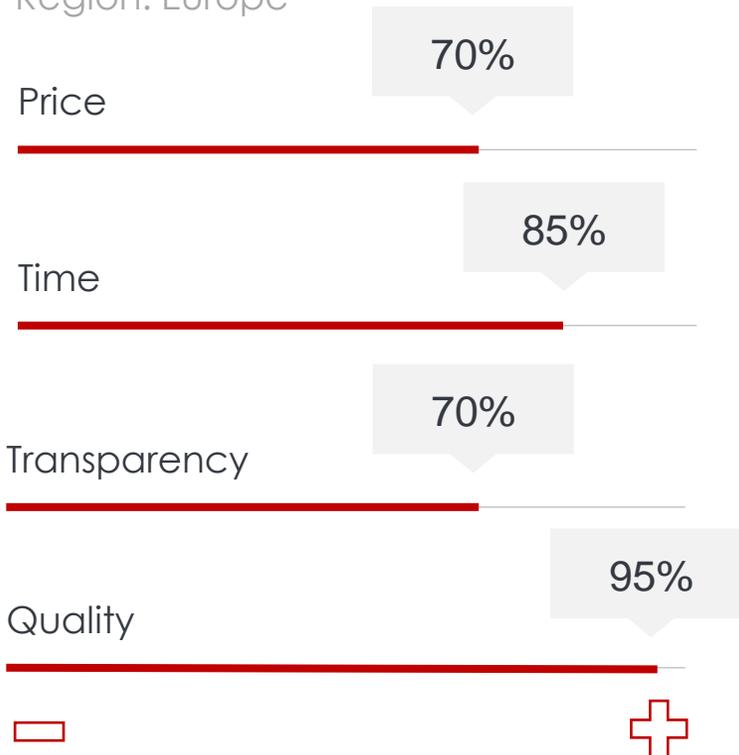
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Customer profile Europe



JOSH DOE

Age: 35
Region: Europe



Characteristics

Key habits

- Authentic & Reliable Products
- Faster Services
- Annual Average Expenditure: \$200-\$500
- Purchasing Power: High

Pain points

- Unpleasant staff
- High waiting time

Services In which he/she will be interested

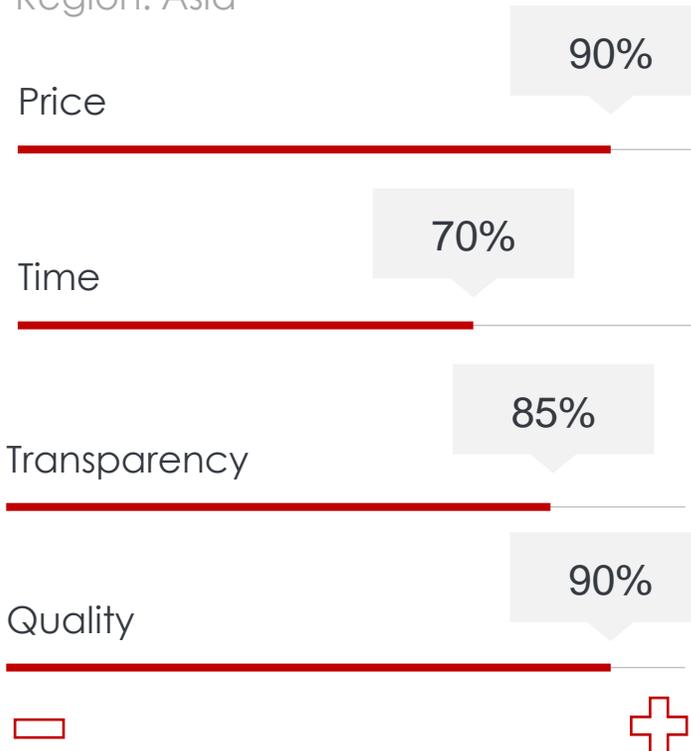
- Remote Assistance
- Pick and Drop facilities
- On demand mechanical service
- Entertainment/ Food & beverages during services
- New Technology / Cloud Services

Customer profile Asia



NI CH'EN

Age: 30
Region: Asia



Characteristics

Key habits

- Good Services for cheap price
- Annual Average Expenditure \$0-\$200

Pain points

- Cost Transparency
- Process Transparency

Services In which he/she will be interested

- Promotional offers
- Test Drives
- Product/ Price Catalogue

Key partners for implementation



Key resources

For instance- Keeping **back up cars** to ensure wide mobility guarantee, smooth transition from current to new process

Diagnostic dongles like **Drivelog connect** by Bosch be installed and used to capture driving behaviour of customers. This data may further be used **by insurance companies** to issue car insurance, **by service centers** on setting next appointment dates etc.

Cloud services like Amazon EC3, S2 can be used to store customer driving behaviour, feedback, car services history. At services center & car dealer, **online dashboard** will help them take new service requests, analyse customer behaviour using **Big data, Qualitative analysis.**



Marketing, advertising, outsourcing cost, device development, cloud hosting, data maintenance, hiring more resources involve cost & organizational restructuring that needs to be reviewed.

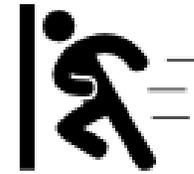
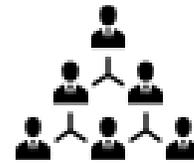
Company owned **Android or iOS mobile application** for its customers with all proposed features on it. Development & maintenance be outsourced to startups & IT companies or done in-house.

More full time employees may be needed to perform:

- **Pick & Drop**
- **Live status tracking**
- **Data crunching & analysis**

Source: Team Analysis, Bosch

Business implementation model



Analysis & need for implementation

Feasibility study & analysis

Outsourcing

Restructuring

Push to customer

Realize benefits

Analyzing existing in house technology/ infrastructure/ utilization of human resources.
Check on the need of implementation.

Study of:

- Technical expertise
- Financial feasibility
- Organizational restructuring
- Resource utilization

Identifying recommendations to implement, hiring startups or IT companies for development & maintenance.

- Hiring new employees
- Technology integration
- Defining new roles
- Realize new revenue streams

- Marketing & advertising new services
- Free app download
- Promote new services omni-channel
- Profit through Pay Per Call (PPC)

- Retention of customers
- Acquisition of after sales customers by company owned and franchise service centers
- Customer satisfaction

Benefits and value propositions

Customer Benefits

- Quality of service
- Seamless and transparent Customer Experience
- More options to book or purchase services
- Easy-to-access and efficient service
- No price manipulation
- Consistent Communication
- Increase in performance, durability and life of the vehicle

Dealership Benefits

- Real time touchpoint
- Enhanced customer satisfaction
- Customer loyalty and retention
- Competitive advantage
- Advocacy by the customers
- Market intelligence and innovation
- Data collection
- Increase revenues

Manufacturer Benefits

- Brand reputation
- Differentiation
- Innovative service opportunities
- Better customer engagement
- Efficient value chain
- Creates holistic marketing scenario
- Multiple revenue streams with portfolio of services

Sources:

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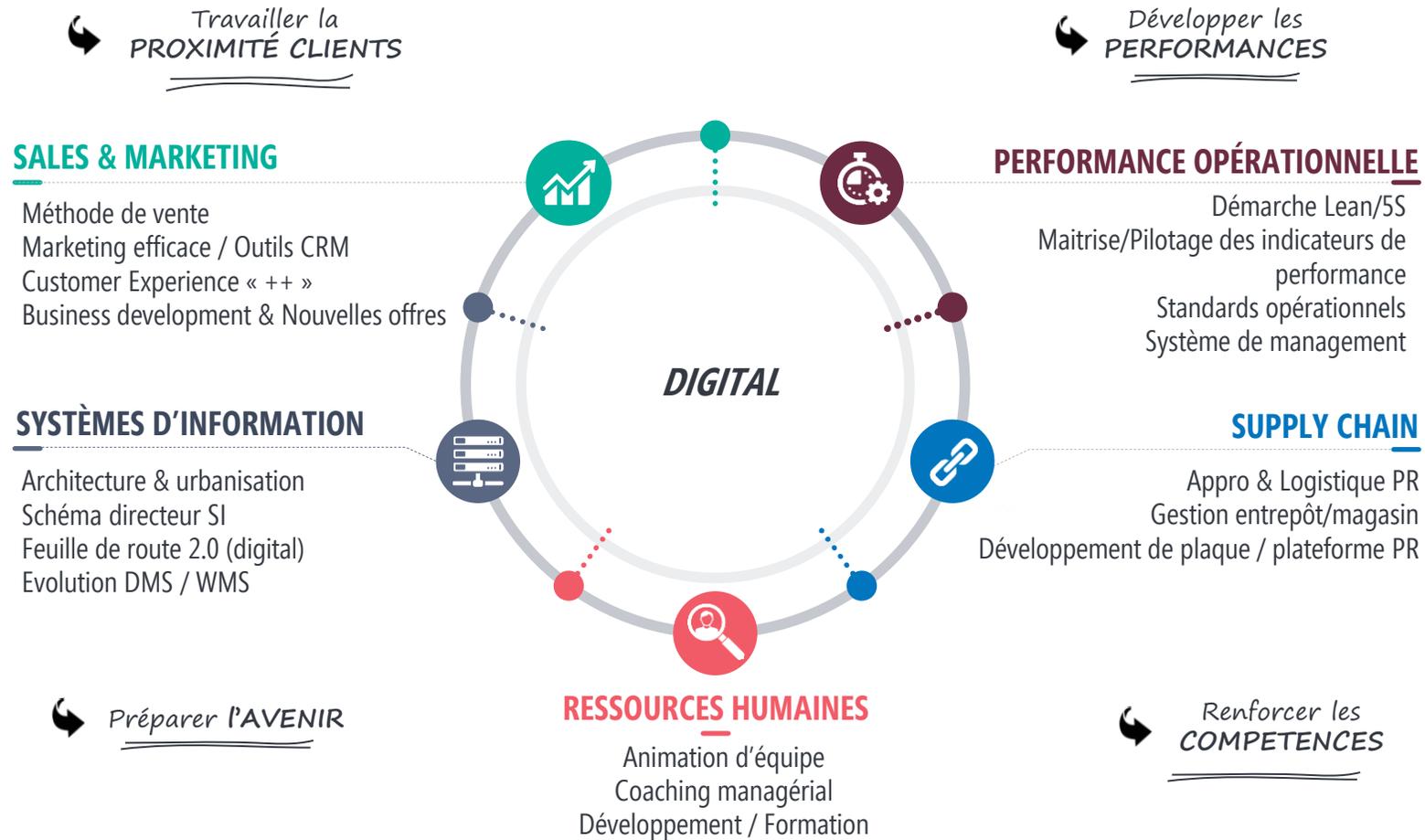
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Des savoir-faire en prise avec les enjeux et tendances du secteur



THANK YOU!

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