

IBM Institute for Business Value

# Transforming retail

*Engaging customers through information, influencers and interactions*



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### **IBM Institute for Business Value**

IBM Global Business Services, through the IBM Institute for Business Value, develops fact-based strategic insights for senior executives around critical public and private sector issues. This executive report is based on an in-depth study by the Institute's research team. It is part of an ongoing commitment by IBM Global Business Services to provide analysis and viewpoints that help companies realize business value. You may contact the authors or send an e-mail to [iibv@us.ibm.com](mailto:iibv@us.ibm.com) for more information. Additional studies from the IBM Institute for Business Value can be found at [ibm.com/iibv](http://ibm.com/iibv)

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By Kalman Gyimesi and Benjamin Stanley

**The automotive retail** landscape is in the midst of revolution. Confronted by consumers who demand highly personalized products and services, automakers must cast aside traditions more than a century old and pursue innovative new retail business models. They must embrace the expectations of sophisticated consumers, enable collaboration across a broader sales ecosystem and facilitate new revenue streams. To navigate this changing marketplace, automakers can solve the retail puzzle by demonstrating excellence across four dimensions that can turn today's discerning customer into tomorrow's valued advocate.

The automotive industry's retail model is at a crossroads. Having sold cars essentially the same way for more than a century – based on a carefully built brand image, on-road performance, safety features and freedom of ownership – the industry must now look to create differentiated offerings that appeal to today's digitally connected, sophisticated consumer.

Consumers are now turning their attention to their mobility needs and are expecting their cars to deliver the same capabilities and conveniences as their other smart “devices.” They are viewing their cars in the same light as their tablets and mobile devices, which means they are not only looking for quality, safe, reliable transportation, but are also beginning to view their vehicles as another extension of their digitally connected lives.

Other consumer-focused industries have seen their business models upended as a result of the wealth of information and number of choices available to almost everyone today. Automakers must follow a similar path to that forged by such industries as electronics and telecommunications, where use of multiple technologies to research, compare and purchase products and services has created new opportunities for individualized offerings, new distribution channels and profitable partnerships.

Already many industries are changing how they reach out and win over these consumers. The retail industry, for example, is customizing in-store shopping experiences, adding digital distribution channels and providing a seamless segue from online browsing to brick-and-mortar purchasing.<sup>1</sup> Other B2C enterprises, across almost every product category, are capturing information at every touch point to improve the consumer experience with their products and services.

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*Connectivity and use of multiple technologies is transforming retail across a broad array of industries.*

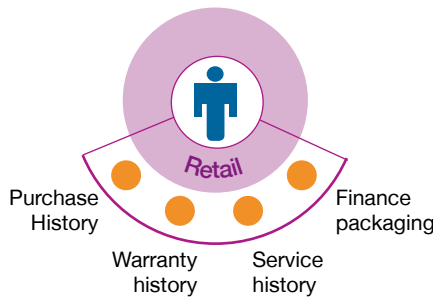
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For the automotive industry, the retail model in place is nearly the same as when the first Model T rolled off the assembly line more than a century ago. From the beginning of mass manufacturing, cars have been targeted to generalized market segments based on performance, appearance, reliability, safety and price. To capitalize on today's new generation of consumers, however, the industry must become more creative in how it introduces new products, develops services and engages with its customers. Automakers, their partners and suppliers recognize that traditional methods of selling and promoting their products must give way to the mandates of the digital age. In just a few years, the industry has begun moving from limited, infrequent transactions with customers to a rapidly developing network of information and interactions that enables automotive companies to know and understand buying preferences and habits in new ways (see Figure 1).

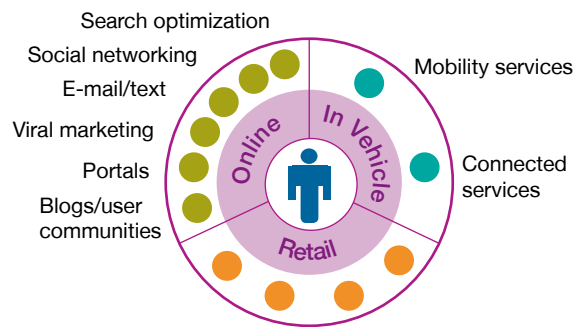
Automotive executives are keenly aware of how their customers are changing. In a recent IBM Institute for Business Value survey of more than 100 automotive executives, customer management was cited as the part of the automotive value chain that will change the most over the next decade.<sup>2</sup> Overall, 67 percent of the executives we surveyed recognize that substantial changes are ahead in automotive retail. These executives recognize that, with all of the new ways to interact with customers across the commerce cycle, rethinking customer management will be the most important ingredient to developing new retail models.

One of the key ingredients to developing stronger, ongoing customer relationships is the integration of data from those activities that generate the most frequent customer interaction (see figure 2).

*Historical customer touch points*



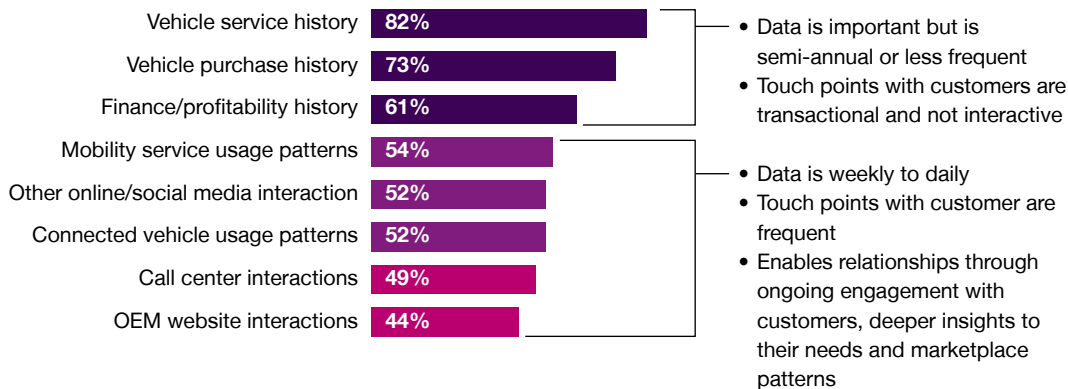
*New touch points that enable greater customer understanding*



Source: IBM Institute for Business Value.

Figure 1: Automakers are increasingly using online tools, vehicle connectivity and mobility services to connect with customers.

**What will be the most valuable aspects of integrated customer information?**

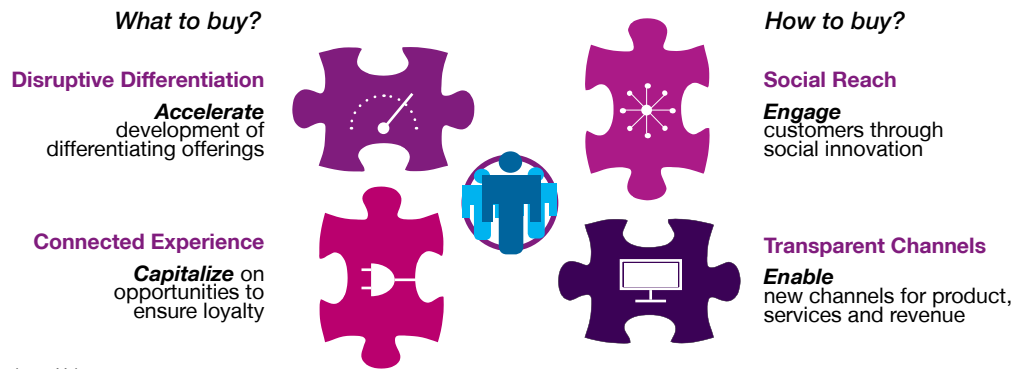


Source: Transforming Retail Survey (n=110), 2011.

**Figure 2: Stronger, ongoing partnerships with customers require greater investment in developing and integrating data from the activities that occur most often.**

The extent to which this data is used and shared differentiates outperforming organizations from others. In the 2011 IBM Global Chief Marketing Officer Study, outperformers indicated they apply customer data extensively in every aspect of the customer lifecycle.<sup>3</sup> While enhancing customer loyalty and advocacy is the highest priority for automakers, their application of data is lowest across the “usage” and “advocacy” customer lifecycle phases.<sup>4</sup>

To capitalize on the opportunities presented by today’s hyper-connected, empowered consumers and the vast amount of customer information this connectedness provides them, automakers must solve the retail puzzle by demonstrating innovation and excellence across four dimensions: Disruptive Differentiation, Connected Experience, Social Reach and Channel Transparency (see Figure 3).



Sources: IBM Institute for Business Value.

Figure 3: Transforming the retail puzzle requires excellence across four dimensions to turn today's consumers into valued customers.

## Disruptive Differentiation

The path to successful retail starts with outstanding products. Fresh new vehicles, electronics, connectivity and services are coming to the market at an ever-increasing pace. The potential exists for the industry to consolidate these trends and create new offerings that disrupt the status quo through innovation that changes the market and even creates new value or markets.

Product development, in fact, trailed only customer management in the assessment of executives in our survey of what aspect of the automotive value chain will change most over the next decade. And automotive CEOs interviewed for the IBM 2010 Global Chief Executive Officer Study said they expect new or different products and services will be their leading responses to changing customer expectations over the next five years.<sup>6</sup> Automakers are already acting in this regard. In a presentation at an automotive conference earlier this year, one manufacturer indicated it is pushing for 20 new product introductions over the next 24 months.<sup>7</sup>

## Study methodology

Quantitative data for this study was obtained through an online survey of 110 automotive industry executives in 18 countries. Of these responses, 38 percent were from OEMs and 20 percent from dealers, with the rest of the responses representing executives across suppliers, captive finance organizations, solution providers and others.

Additionally, follow-up interviews were conducted with a number of these industry leaders. We also used data from the IBM Global Chief Marketing Officer Study, in which 70 senior marketing executives from the automotive industry were interviewed, to corroborate and amplify our findings.<sup>5</sup>

*“We need a customer-centric mindset. We must commit more time to incorporating the “voice of the customer” into our offerings.”*

*President, Automotive OEM, Japan*

While a vibrant vehicle pipeline has been a core competency for automakers for decades, the industry is now recognizing that products themselves account for only half the picture in attracting and retaining new customers. New services that appeal to today’s connected consumer are also critical. Nearly seven of ten automotive CEOs said new or different services will be the biggest area of customer demand over the next few years.<sup>8</sup>

To respond to these changing customer expectations, automakers will need to bring offerings that supplement traditional vehicle buying options. (see Figure 4). These include such offerings as highly efficient vehicles that are economical and eco-friendly. In addition, embedded and connected services that offer many opportunities to respond to desires for greater personalization, safety and driver assistance may have the potential to be disruptive offerings.

Automakers will also need to think beyond the vehicle and offer mobility services that address traffic congestion, provide integration with other relevant transportation modes and decrease the cost of ownership.

### Capitalizing on personalization

In today’s connected society, where consumers are openly vocal about their individual likes and dislikes, *differentiation* usually means *personalization*.

Personalization can be considered across two dimensions: the physical vehicle itself and the electronic customization of everything in it. OEMs make a strategic determination about how to offer physical customization through more build-to-order options, dealer customization or by simply leaving it to others in the aftermarket. Electronic customization is enabled

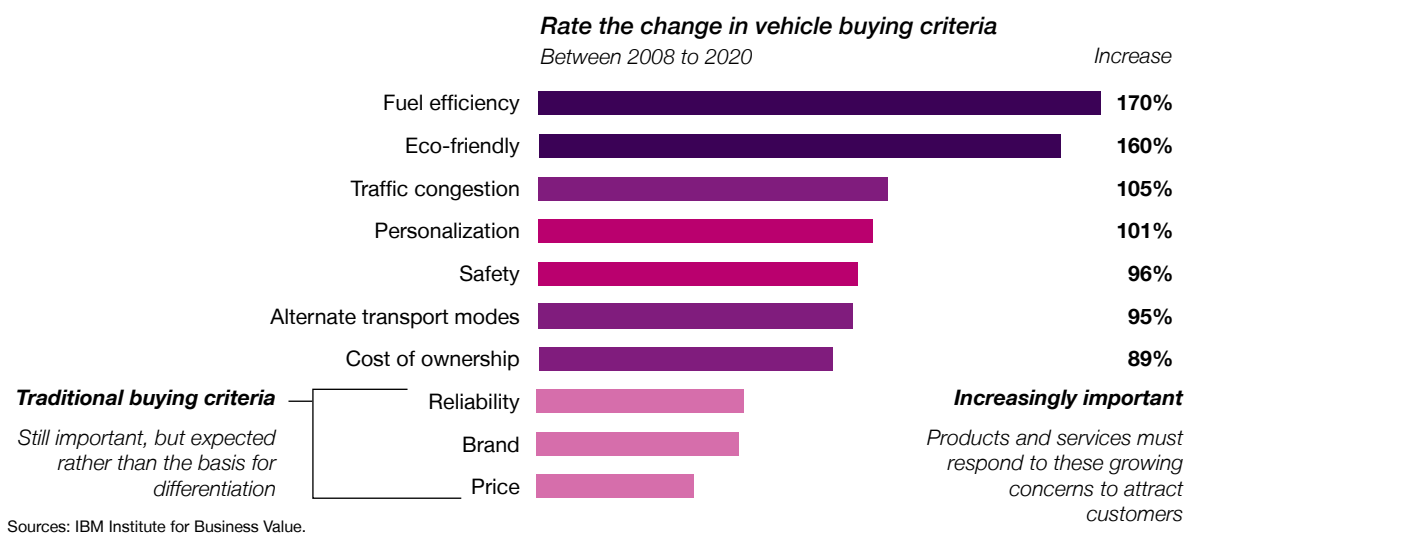


Figure 4: Traditional buying factors are still important, but new criteria are emerging as the basis for consumer decisions about vehicles.

by providing customers with the ability to control various vehicle features from any location through software and apps. For example, many manufacturers provide a remote vehicle start through the key fob; however, on very cold or hot days this will not help the vehicle be more comfortable unless the climate controls are set properly. A more personalized solution would offer access to the entire climate system through a smart phone. Climate and vehicle adjustments could be made remotely, removing the need to preset the vehicle manually.

Electronics can be further personalized by offering various interfaces, or “skins,” that appeal to different target audiences. The virtual interfaces for highly connected young adults might look very different than interfaces to more selectively connected seniors. Reducing electronic components to their basic building blocks will allow them to be creatively bundled and packaged for various demographic groups.

While build-to-order remains within the direct control of automakers, electronic customization is likely to become a battleground between OEMs and third parties – such as telecommunications and media and entertainment companies – that are already far along the personalized electronics learning curve.

To influence that segment of electronics customization beyond their direct control, OEMs must work with selected partners to implement open-standard vehicle enhancements and conveniences. They should not waste resources trying to control features that are easily supplied by others, but, instead, focus on enabling and amplifying these capabilities to the best advantage of their product offerings.

Finding and capitalizing on customer touch points should be a benefit of enabling new vehicle features, regardless of whether they are proprietary or open. Through continuously collecting data about customers and their vehicle usage, automakers can target specific solutions to individual preferences. Ultimately, OEMs can build customer reliance upon a particular method of electronic control and create customer “stickiness” to the products and services of their specific brands.

Componentizing and repackaging the right products and services into compelling offerings will afford automakers flexibility in both pricing and selling their products to diverse audiences. Packages can be tailored for differentiation according to individual needs, climate, parking location or, even, the needs of additional passengers. Vehicles can also be componentized according to generational needs (see sidebar, “Complex multi-generational families”).

### **Differentiating for success**

Vehicles have become increasingly difficult to differentiate from the similar offerings of competitors. The acceleration of development of fresh vehicles, products and services that disrupt the current value expectations of customers gives automakers the opportunity to break away from this paradigm.

### **Differentiate the platform**

Determine the best opportunities to differentiate product and service offerings physically, electronically and virtually. The extent of physical customization offered through the design of the vehicle is a strategic choice. It can be offered either through online configurators, pushing toward build-to-order sales models or through dealer-driven personalization. However, electronic personalization will be a necessity to effectively compete in the future. Strategically, automakers must separate the electronic personalization they can control from what can best be left open to external innovation.



### Create the building blocks

Every aspect of the vehicle and the interaction with it is being electrified. Automakers should aggressively incorporate electronic components and enable control through remote apps. Even previously obscure aspects of personal comfort should be fully electrified and available for customization. By reducing these features to their core building blocks, they can then be packaged and positioned according to diverse needs of customers based on their preferences, geography and vehicle use.

### Package to the audience

Automakers have long excelled at packaging physical vehicle features into bundles. Electronic components can be treated in similar fashion. However, electronic components provide much greater flexibility into how they are bundled based on individual preferences, demographics or geographic locations. This provides a new differentiating capability of appeal to all relevant audiences and the ability to sell and price flexibly.

### Complex multi-generational families

Could automakers more effectively help extended families single-source their transportation needs across generations?

Auto companies have long understood and targeted their vehicles at specific demographic groups. Young adults often look for basic entry-level vehicles. Growing families require larger, more spacious cars to move their children. Finally, after the children grow up, active seniors refocus on smaller, comfortable vehicles.

The right vehicles also have to be coupled with the right mobility services. Young people are often more urban and have less discretionary spending. They need access to public transit. At the same time, growing families may need occasional access to different types of cars from their primary vehicles.

Young adults are already highly connected and will welcome the ability to select the electronic “skin” to their vehicles. They will want to extensively configure electronics. Parents will be concerned about safe driving and usage of social media in cars for their children, as well as proactive vehicle maintenance alerting. The younger generation may also need to have occasional access to vehicles while traveling or away at college.

Seniors are the fastest growing demographic on the Internet, but are likely to be more selectively connected in their vehicles. They will want easy and simplified access to navigation, driver assistance and vehicle service. Their families will be interested in safety, security and location tracking.

Often the middle generation exerts significant influence in helping both their children and parents select vehicles and services. Connectivity and electronic personalization can help tie the generations together into interconnected, collaborative families. As their families grow, they will want electronics that are portable across different vehicles and will be interested in infotainment and information services. Their mobility service needs would entail occasional access to a variety of vehicles for many uses, such as a van or SUV for family highway trips, or a small sports car or hybrid for longer one-or-two-person trips.

If automakers can reduce electronic capabilities down to their components, they can then be reassembled into packages that appeal to various demographic groups and managed across interconnected collaborative families. By considering how to bundle offerings to whole family units, automakers have the potential to develop lifelong customer advocates.

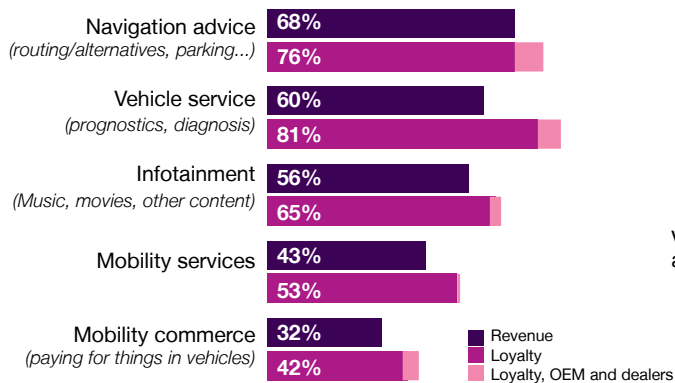
## Connected experience

*“Customer experience equals loyalty.”*

*Vice President, marketing, global automotive manufacturer*

Capitalizing on the wants and needs of today’s empowered consumer requires providing individuals with a Connected Experience (see Figure 5). Connected vehicles open endless options for new services, such as speech recognition, driver-focused instrument clustering and attention monitoring systems. While these features offer automakers the opportunity to generate revenue, they also create daily touch points for automakers with their customers and offer the potential to create customer loyalty.

### Rate the importance of each aspect of connected vehicle services



Sources: IBM Institute for Business Value.

### Automakers and dealers jointly recognize the potential to connect with their customers

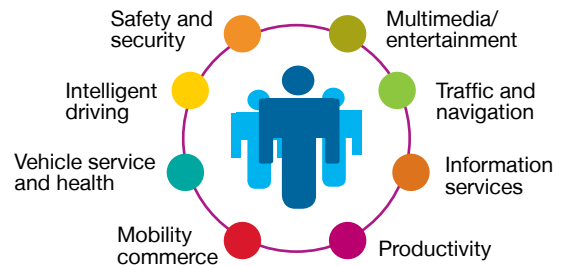


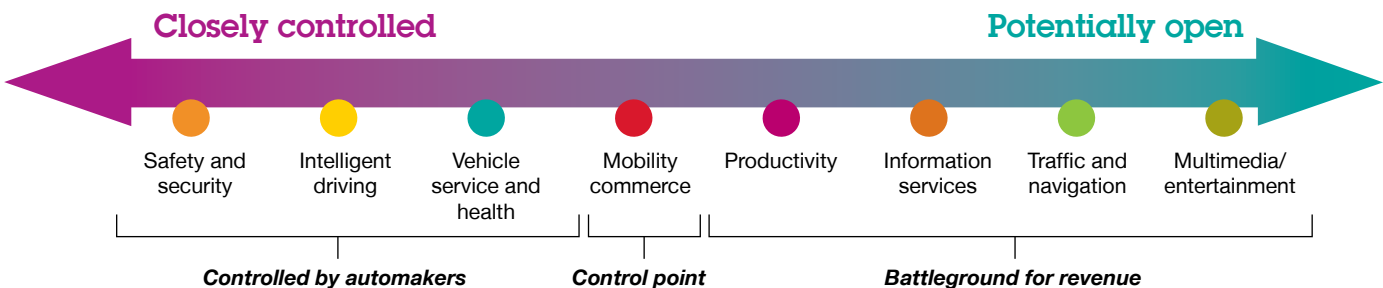
Figure 5: Connected vehicles bring new revenue opportunities to how vehicles are used, but provide even greater utility for winning customer loyalty.

**The spectrum of connected services**

Vast opportunities are available for automakers to serve drivers and passengers through connected vehicles. With the rise of smart devices, it's inevitable that customers will bring these devices into their vehicles and want to use them to enhance their experience as they are moving about. Automakers must consider what aspects of telematics and vehicle connectivity they will be able to differentiate themselves with and what will be ultimately co-opted by third parties.

Additionally, they will have to decide where to concentrate limited IT resources to compete across a spectrum of connected vehicle services. Safety, security, vehicle service and mobility between vehicles may be areas that OEMs can differentiate. Services such as infotainment and information service will likely be more challenging (see Figure 6).

Automakers should focus on enabling and amplifying connected services that customers will likely bring into vehicles. For example, they can allow easy access to power sources and recharging from every seat in the vehicle. "Dumb screens" that enhance display and content viewing to passengers through their devices can be added. Signal boosters can be embedded in vehicles to detect and increase wireless reception. OEMs must resist trying to compete for content with smart device providers, which have greater resources and more sophisticated solutions. Instead, they should pick the elements of the connected spectrum where they can provide differentiated offerings.



Sources: IBM Institute of Business Value.

Figure 6: Automakers must consider what aspects of vehicle connectivity can be opened to third parties and how to best control revenue.

The rapid growth of vehicle and device connectivity provides greater opportunities to link customers to products and services for long-term relationships. For example, by 2016 in the United States, there are expected to be 150 million in-car Internet users and 30 million Internet radio users. More than 210 million connected cars are expected to be sold in mature markets. Application usage will accelerate 40 fold, with more than 129 million users of smartphone applications in cars.<sup>9</sup>

These projections are in line with what we learned from the 2011 IBM Global Chief Marketing Officer Study. In that study, 64 percent of automotive marketing officers told us that enhancing customer loyalty and advocacy was their highest priority as they begin enabling digital technologies. That jumped even higher to 70 percent when considering CMOs from just automotive OEMs.<sup>10</sup>

All members of the automotive value chain should recognize the potential to connect with customers. To accomplish this, gathering and sharing the increasing amount of customer data available across the value chain is essential if OEMs, dealers and other partners are to understand and be able to meet the changing demands of today's consumers.

### **Connectivity making a difference**

One of the inevitable byproducts of connectivity may be the interchangeability of vehicles. Enabling a single persona across a vehicle portfolio differentiates from feature, function and price comparisons of models with competitors. Customers could personalize on several parameters, including:

- Vehicle settings and adjustments
- Customization of the layout and information presented on the dashboard
- Music, media and other content
- Calendar and business applications
- Navigation and routing through varying parameters.

Automakers then can provide solutions to seamlessly move a customer's persona between any of its vehicles to make the experience uniform. Vehicle interchangeability allows automakers to sell the appeal of the entire brand and vehicle portfolio to all customers rather than just focusing on individual models.

Ultimately, integrating vehicles with other modes of transportation allows automakers to sell mobility as a subscription service across transportation modes. As urbanization continues its multi-decade transformation of population centers, the ability to move between modes easily will be a key component to ensure that cars remain relevant and retain their place in the transportation mix.

Connectivity also provides the opportunity to delight customers by changing the service equation. Very few customer experiences with their vehicles are as unpleasant as having them serviced. The Connected Experience offers an opportunity for remote service of vehicles and less direct maintenance.

### **Capitalizing on connection**

Automakers should take every opportunity to use vehicle connectivity to link customers to products and services.

#### **Connect for loyalty**

Connected vehicles present the best opportunity for automakers to interact with their customers every time they use their car. They can use this information to develop personalized solutions and enhance customer loyalty by making it difficult or inconvenient for them to switch brands. The most valuable connected features are those that help drivers get where they are going most efficiently and keep them informed about their trip and their vehicle. Ultimately, this gives automakers the opportunity to focus on customer trust and loyalty. Trust drives advocacy, which, in turn, drives customer spend.<sup>11</sup> Concentrate on loyalty and the revenue will come.

**Focus on opportunity**

There are many opportunities for connected services from which third parties can be excluded, such as safety, vehicle service, remote control of vehicle parameters and full portability of a personalized electronics profile between vehicles. Invest and protect connected applications that cannot be easily replicated by third parties or competitors. Automakers have limited IT resources, which should be concentrated on providing exciting solutions in areas others cannot reach.

**Integrate and amplify**

Connected vehicles provide numerous opportunities. In areas such as infotainment, productivity, e-mail or social media usage, it will be difficult for automakers to compete with other solution providers. Instead, they should partner with companies adept at these types of services, such as telecommunications providers. OEMs should accommodate devices that drivers and passengers bring into vehicles and improve their experience while there. Focus should be on inexpensive enablers, such as easy access to power, simple screens for device connection and signal boosters to improve reception.

**Social Reach**

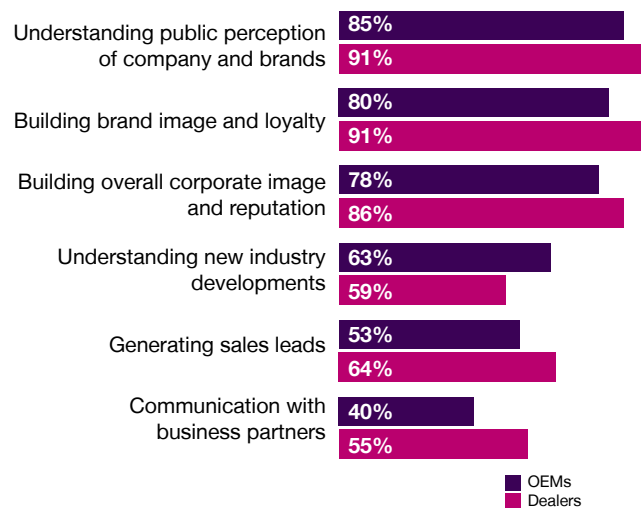
Social media is booming and is no longer the exclusive domain of the younger generation. Yet, 62 percent of automotive Chief Marketing Officers indicated social media is the factor for which they are least prepared to address.<sup>12</sup> Though both OEMs and dealers recognize the value of social media in their businesses, they are still learning how to use it effectively.

*“Until recently, we didn’t realize how powerful the impact of social media is in our marketing success.”*

*CMO, European automotive trading company*

Despite this unpreparedness, both OEMs and dealers must learn to engage customers and prospects through social media and other channels. Social engagement and conversations are increasingly differentiating the most successful automotive offerings and reinforcing that consumers still have an ongoing passion for automobiles and their brands. In fact, OEMs and dealers are generally aligned in the role social media plays in their businesses (see Figure 7). The only real point of disconnection our interviews revealed is that dealers would like to be more aware and engaged in OEM social media initiatives.

**Rate the benefits of social media/business activity for automakers**



Sources: IBM Institute for Business Value.

**Figure 7: Dealers and OEMs are aligned in many ways in the role of social media in their businesses.**

Consumers are increasingly focused on their mobile devices. These devices have now grown to 23 percent of their time spent on media.<sup>13</sup> Yet, mobile still accounts for only 1 percent of total advertising spend. Conversely, the time they spend engaged in traditional print media has plummeted to 6 percent, but organizations still invest nearly a third of their total advertising budget in print.

Why the disconnect? Part of the reason is that digital advertising is still maturing, and approaches need to be developed that will reach consumers in a manner they will accept. Unlike television or print, for example, saturating devices with mobile advertising is counterproductive. Such an approach only alienates the target audience, ensuring that relevant messages are ignored, or worse, result in a backlash. Even so, automakers are looking to expand the use of these technologies over the next three to five years. Eighty-eight percent of automotive CMOs plan to increase their use of social media, and 82 percent are looking to grow their deployment of mobile applications.<sup>14</sup>

Even the most traditional marketing executives admit that new, digital tools will become the primary means for engagement in coming years. Unlike more traditional media, the consumer is in almost complete control of what he or she receives or rejects. More than ever, automotive marketing and communications professionals will need to be highly creative in selecting the right messages for the right highly targeted market

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*More than ever, automakers and dealers will need to make sure they have selected the right messages, targeted to the right audiences, through the right media.*

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segments, as well as sending these messages to the media individual consumers prefer. Perhaps that's why 63 percent of automotive CEOs identify creativity as the top leadership quality needed in their organizations over the next five years.<sup>15</sup>

### **Collective Intelligence: Listening to the crowd**

The traditional automotive sales model has, historically, consisted of a close, albeit tumultuous, working relationship between OEMs and dealers. In today's world, that relationship must not only be strengthened, it must be expanded to include partners, customers and others across the extended automotive ecosystem.

The rapid rise of the social technologies is increasing the ability of companies to tap into Collective Intelligence – the distributed knowledge and expertise of individuals located inside and outside the formal boundaries of the enterprise. Applying this knowledge can deliver tangible benefits in developing new products and services, sharing best practices, distributing work in new, innovative ways and predicting future events.<sup>16</sup>

For the automotive industry in particular, this requires OEMs to effectively engage the public with tactics that creatively draw attention to their respective brands and vehicles, such as video, promotions, contests and games. Dealers can provide local context and action to pull in those customers who connect to the OEM. Understanding the customer's practices with social media gives OEMs, dealers, suppliers and other business partners direction on which initiatives to employ, to whom and through which media.

Finally, engagement by all parties through public listening provides the opportunity to capture and sort customer data and respond rapidly with relevant content. Listening to the public requires sophisticated automated sorting and analytics engines that help automakers and dealers find the most meaningful social media opportunities. There have to be effective processes to not only find effective engagement opportunities with customers, but also to subsequently engage them with speed.

To capitalize on the intelligence to be gleaned from social conversation, both OEMs and dealers must be able to overcome respective organizational obstacles. They must work collectively to gather and assimilate marketplace intelligence through social collaboration (see Figure 8.)

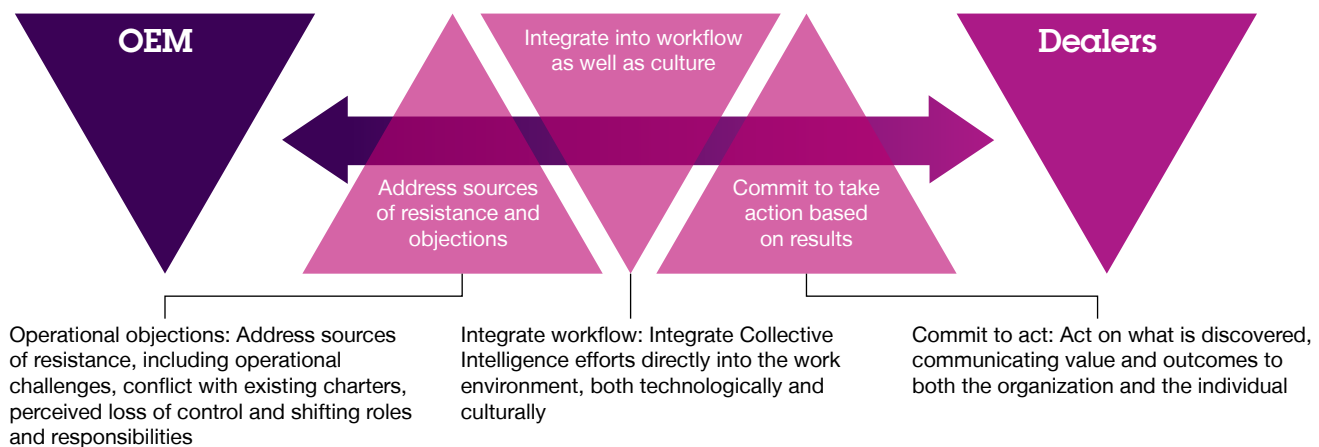
### Influence customers through engagement

Automotive executives need to engage customers through the vast reaches of social conversation by synthesizing and driving the discussion. They must become key influencers in the customer decision making process through active participation in social networks.

### Align your ecosystem

Aligning employees, dealerships and other partners as active collaborators in social business is essential for effective customer engagement. Everyone matters, so finding new ways to bring innovation and creativity forward is critical to creating the disruptive differentiation needed to succeed. By elevating collaboration, sharing of ideas and seamless interaction through social networks, your people and partners can connect to customers to learn what they “really” want.

*To capitalize on intelligence to be gleaned from social conversation, both OEMs and dealers must be able to overcome respective organizational obstacles.*



Source: IBV Collective Intelligence: Capitalizing on the crowd, 2011.

Figure 8: OEMs and dealers must collectively work to gather and assimilate marketplace intelligence through social collaboration.

### **Listen widely and engage quickly**

Developing sophisticated listening engines and rapid engagement processes will facilitate learning about customers and identifying new opportunities. Listening and engaging in social conversations provides better insight to sentiments about your brand and opportunities to influence those perceptions. Employees can serve as brand ambassadors, engaging potential prospects and turning them into revenue-generating customers. Dealers are a critical component to extending social reach as they own the local face-to-face connection with customers.

### **Move beyond the obvious**

Advance social media outreach by exploring emerging, growing tools and platforms that stretch beyond the “Big Three” of Facebook, Twitter and YouTube. Engaging and connecting customers to brands through social sites further enables unique customized experiences with specific products and services. Creating these social connections across products, the ecosystem and customer networks also drives new innovations and business models discussions. Simply listening to the customer is not enough. Customers want to engage and have input into new products and services. A social business connected to social and product networks is highly advantageous in truly knowing and wowing customers.

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*“Transforming sales channels and providing low-cost products are particularly critical in rapidly developing countries.”*

*CEO, Japanese OEM*

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## **Transparent Channels**

### **Innovating new channels**

While the priority for automakers will remain on selling vehicles through dealerships, many new products and services with revenue-growth potential will face intense competition outside the industry and be sold through multiple channels.

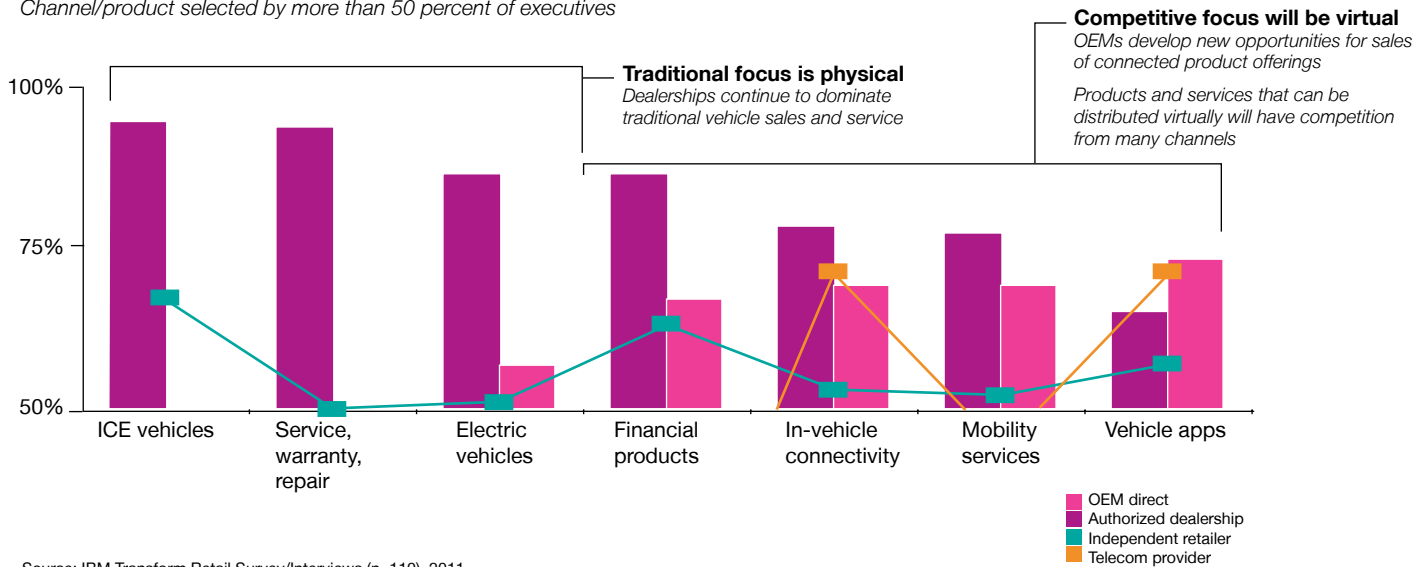
More vehicle products and services will be available virtually. This opens the door for OEMs to initiate direct consumer contact through a variety of digital channels. Just two years ago, less than a third of automotive CEOs indicated they expected to develop new sales channels.<sup>17</sup> Today, many new channels for products and services are already in place and more are coming at a rapid pace. Automakers will have to determine which third-party channels best help their growth, which channels they will develop themselves and whether some channels present a challenge to their primary business. (see Figure 9.)

Overall, OEMs will need to develop a multi-channel strategy as growth opportunities emerge from a number of new directions. They will have to develop their own direct channels and engage new partners. In the process, they will be challenged by others outside the traditional industry. Media and Entertainment companies and telecommunications companies already have significant advantages with connected services and apps. Independent retailers will challenge for all types of products and services. Conventional banks will compete with captive finance companies for both loans and financing dealer floor space.



**What channels might sell the following automotive products or services by 2020?**

Channel/product selected by more than 50 percent of executives



Source: IBM Transform Retail Survey/Interviews (n=110), 2011.

Figure 9: New sales channels are developing and competing for products and services that can be sold virtually.

**Dealers remain traditional while seeking new opportunities**

Dealerships have been consolidating into larger dealer groups for some time. Since the economic crisis, this trend has been accelerating and, according to half the executives in our most recent survey, will continue to do so over the next several years. Larger dealership groups will have greater resources and investment capability to devote to effective, coordinated digital marketing strategies, including greater use of social campaigns, tablets and mobile devices. While dealerships remain the key channel for the traditional sale and service of new vehicles, third-party buying sites are emerging that help consumers with

everything from comparative research on vehicles, to configuration, financing and price negotiations. Dealers are also challenged to keep the customer's business after the vehicle is no longer under warranty. Customers traditionally move rapidly away from dealer service to less expensive alternative options.

Where does this leave dealers? Dealerships, like OEMs, will have to work to redefine their value proposition to customers. They should be exploring mobility services, where they can become a hub for moving customers to various types of vehicles and helping to establish more hubs across their local area. They can also help customers enable peer-to-peer

transactions for sharing everything from their vehicles, to rides, to parking. Dealers might also lead the way in offering vehicle customizations and accessories, as well as providing rapid-charging services for electric vehicles.

Furthermore, service can become a competitive advantage for dealers. For example, connected diagnostics and prognostics, which are not easily replicated by third parties, can simplify the service effort. As well, innovative dealers have begun using service visits as an unsolicited sales channel to move customers to new vehicles.

### **Revenue innovation can be its own channel**

Customers are increasingly supplementing their vehicle experience with virtual products. More automotive customers will look for connected services and opportunities to integrate their smart phones into their vehicles through apps. Also, they will look more for mobility services that consolidate their transportation costs and help them figure out how best to move around regardless of mode. Automotive companies can offer mobility services to capture more of the spend that is currently fragmented across many providers.

As automakers offer more of these services, an opportunity will arise to innovate the management of revenue as a channel in itself. Conventional subscription models are not the only ways to generate revenue. Several strategies will be needed to provide customers with choice and flexibility in virtual products.

These can be summarized into three general categories of revenue innovation:

- Pricing innovation, focusing on new ways to charge for your product, in terms of both the amount of money charged and the point(s) in time when the customer is required to pay. Examples can include selling components by parts or creative bundling.
- Payer innovation, focusing on finding customers who are not ultimately the consumers of the product or altering who pays for a given good or service. Examples can include advertising-supported offerings or social networking-based communities.
- Package innovation, focusing on new ways to expand product or brand value to different customer behaviors and segments or new ways of offering the product to the customer. Examples can include demographic-based packaging and brand extensions.

Other industries, such as media and telecommunications, have been aggressively experimenting with revenue innovation in recent years. Their business models have been upended by such trends as ubiquitous low-cost communications, rapid technological innovation, nearly unlimited low-cost bandwidth, real-time data processing power and the expectations for personalization and control by users. These trends are almost certain to extend into connected vehicles.

### **Linking to build customer connections**

As more products extend into the virtual world and can be configured in a variety of ways, consumers will expect to discover new products through their Connected Experience, regardless of the device. Automakers must develop online and mobile experiences that link customers to new products and services. Developing the virtual channel increasingly involves OEMs and puts them in a stronger position to build individual customer relationships.

### Watch the dealer landscape

As dealerships consolidate and get bigger, they have the opportunity to be stronger business-to-business partners as they're able to better match investment. Dealerships are also resetting their value proposition to customers as more online options marginalize their customer connections. Dealers and OEMs can find new opportunities to collaborate through multi-tiered social media campaigns and enable mobility services and vehicle services through this connectivity.

### Create paths to new revenue

As more products in and about vehicles become electronic and are virtually consumed, there is new potential for automakers to deploy a number of revenue innovation strategies. Develop opportunities to deploy pricing, payer and package innovation with apps, as well as with connected and mobility services models. Examples of success and failure are increasingly documented across the media and entertainment industry, which has seen its long-standing business models affected by ubiquitous connectivity. Revenue innovation can become its own channel for revenue.

### Conclusion

The revolution initiated by the empowered consumer has caused numerous companies to revisit their business models. Starting with industries like telecommunications and media and entertainment, this transformation is now altering the automotive retail landscape at a frenetic pace. It's time for automakers, their dealers and partners to step up. No longer will products and services targeted for the masses create the differentiation needed to build brand advocacy. Today's connected and empowered consumers expect to be served according to their individual preferences.

Automakers, their dealers and partners must understand these customer wants and provide flexible, personalized, packaged and componentized products and services. Connectivity gives automakers, dealers, suppliers and partners a wealth of information they can use to learn about their customers. Along with this comes the opportunity to create direct, personal relationships with individual customers and the ability to better position the brand, as well as products and services.

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