Automotive Retail in the Digital Age

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INTRODUCTION

At the beginning of the 21st century, many thought the auto industry had reached the point where – in spite of the complexity of its product – it no longer represented the leading edge of technology. The industry was viewed as a lumbering behemoth, most often gaining public attention from its need for regulatory oversight and its vulnerability to economic downturns.

Over the last few years, all that has changed. The development of new battery technology means that electric vehicles can compete for the first time with those powered by internal combustion engines. Internet-connected vehicles and infotainment systems are bringing navigation, second-row entertainment and driver-voice text and email processing to the driving experience. Even greater impact is coming with the advances in autonomous vehicle technology and advanced driver-assistance systems (ADAS) in which the driver's role is supplanted by sensors and sophisticated software, offering a new kind of mobility with significantly improved occupant safety.

Although electrification and autonomous driving are getting the lion's share of media attention today, another disruption is dramatically changing the automotive industry, the significance of which is only beginning to be realized: the effects of the digital revolution on automotive sales.

The automotive retail purchase process is undergoing dramatic change. Consumers armed with mobile devices now have previously unavailable information at their fingertips that provide significant leverage in the sales transaction. At the same time, big data and sophisticated analytics allow original equipment manufacturers (OEMs) and auto dealerships greater insight into customers' activities and buying behaviors. And, in the midst, a new network of vendors has emerged to support the data needs of both sides of the transaction.

This ISG white paper examines how these changes are disrupting the automotive retail marketplace, the new buying behaviors that are resulting from these disruptions and the evolving community of digital suppliers that are helping OEMs take advantage of the changing industry.

The Changing Retail Environment

In the past, the traditional automotive purchase started and ended in the dealer's showroom. An interested buyer might stop by the local car lot, "kick the tires" to get a sense of what was available and begin a conversation with the salesperson on duty about their options. The purchase was centered around the dealership and a personal interaction.

This is no longer the case. Today's consumer begins the process of acquiring a new car much like he or she conducts many other retail purchases: by searching online. Consumers are shopping for vehicles anytime, from anywhere, on any device – and they have access to near-limitless information.

Meanwhile, the automotive manufacturer engages with the retail dealer and other partners to track and understand the customer's digital footprint, using that information to hook the buyer and streamline the sales process before the vehicle purchase even begins. At the heart of this radically different retail experience for both the automobile customer and the manufacturer is digital technology.

However – while America's newest automaker Tesla is throwing the dealership concept completely out the window and selling directly to the consumer with no involvement from an independent dealer – it would be shortsighted to wholly ignore the importance of the in-person experience and traditional dealer network in the automotive retail purchase. In a successful retail model today, the lines between the digital and physical world are blurred. The auto buyer needs to touch and test drive the vehicle – probably more so than most other retail products – and this means automobile sales will depend on the buyer's ability to move seamlessly between online and the retail store.

Digital Customer Experience

At first glance, buying an automobile is much like other digitally enabled retail purchases. The consumer begins the buying process online by "building a vehicle" to their specifications and then searching inventory in a specific geography. The buyer evaluates their current vehicle's trade-in value based on its model, option content, age and condition. The financial institution (either traditional bank or newer online lenders) reviews, selects and approves financing and the consumer's choice of purchase or lease in real time. Then the purchase process shifts from digital to more traditional retail, when the consumer arrives at the dealership to test drive the vehicle and sign the necessary paperwork to take ownership. Some dealers, taking advantage of their close proximity to the customer, further emulate the new online purchasing model by delivering the vehicle directly to the customer's home at no charge.

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Though this process may appear seamless to the customer, a complex network of business relationships and digital data exchanges exists in the background. OEMs share model configurations, inventory and vehicle specifications with auto shopping sites where buyers start their search. These sites query the OEM to determine discounts or private offers so they can establish pricing and then link to financial institutions to check the customer's credit status and arrange financing.

Today's retail model weaves together the best of both worlds: the physical world of local inventory and test drives with the digital fabric of standard and proprietary databases and web services. This has created a new set of players in the field: Vendors that use data from numerous OEMs, financial institutions and retail dealerships to create a virtual one-stop-shopping experience available via mobile devices and traditional PCs.

Though the consumer never sees the complexity of integrating the various sources of data into the digital retail experience – they are too busy simply clicking "next" – this integration effort requires expertise in digital technologies, large-scale data warehouses, contractual relationships between the parties and knowledge of and a commitment to data privacy. This means traditional automobile manufacturers and retailers that want to complete in today's evolving market must engage the right partners to advise, build and manage these complex digital technologies critical to today's sales efforts.

In Search of a Customer

Retailers of all kinds are finding that the more digitally oriented a customer is, the less likely their buying decisions are to be influenced by traditional product loyalty. This is a shift for traditional auto manufacturers that have long been accustomed to strong brand loyalty. To meet this challenge, OEMs need to move toward digital tools and advanced analytics to identify, track and engage the more elusive, modern automotive buyer.

How are auto manufacturers switching gears to tap this new market?

Today, OEMs are working with strategic partners using big data and advanced digital techniques to search for potential buyers long before they actively enter the market. Online searches, social media site postings, non-automotive buying patterns and sociographic and demographic data are just some of the sources they can combine in a data warehouse to fuel analytics efforts. Using this information, OEMs can identify and track behaviors that indicate a future automobile purchase and gain actionable insights to drive their marketing efforts. Advanced analytics are especially important in markets like automotive, in which the product life is measured in years and periods between repurchase are longer than those of other consumer products.

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Detecting where a customer is in the buying cycle allows a seller to create a targeted marketing effort that is far more individualized than traditional advertising, in which messages are delivered indiscriminately to a population regardless of their potential to buy. Sellers must tailor the marketing message to a number of factors, including how long since the last product purchase, maintenance/repair record and purchase of accessories or related services.

For example, a current automobile owner who has not brought a vehicle in for service lately may receive a traditional direct mail piece with a coupon for dollars off an oil change and tire rotation. Another individual who has purchased new vehicles regularly may receive an email highlighting the latest features of the new model. And a third individual who has never purchased a vehicle before but who fits the socio-demographic pattern of a new-car buyer may receive a personalized online advertisement that leads them to an individualized private offer for a discount on a vehicle they would likely purchase.

The obvious goal of these efforts is to pull the buyer into the digital purchase process described earlier. Because this is not likely to occur on the first contact, sellers must maintain a customer contact history and use it in the analytics process to inform subsequent offers. Maintaining the history of customer "touches," whether they are digital or more traditional direct mail marketing techniques, provides the basis for judging past performance – by attributing the "touch" to a purchase as a way of measuring efficacy – as well as recognizing the consumer's place in the buying cycle – by correlating a digitally generated offer and a subsequent quote request.

Tracking this "bread crumb" trail of digital customer interactions requires recognizing each customer as a unique individual across time, geography, channel and device. Successful sellers must maintain a large knowledge base of recognized individuals so they can compare and match them to recent digital interactions. The database must identify who each individual is, whether he or she is an existing customer or a new prospect, whether he or she is part of a business and which household they belong to. Coordinating accurate analytics and targeted marketing efforts to this degree is essential to successful automotive retail marketing.

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Conclusion

While the disruption to the automotive retail marketplace is similar to other retail markets that are feeling the effects of new digital technologies and the use of data, it is dissimilar in terms of how the product requires a retail marketing strategy that integrates local and digital: the local dealership and advanced digital technology. The process of buying, selling and financing automobiles is changing rapidly for both the retail dealer and the OEMs and is opening up a new market for the myriad of partners supplying and managing the data related to the customers and their buying habits. In this new landscape, automobile manufacturers must prepare to define a new sales and marketing strategy that hinges entirely on the unique characteristics of the product and its customers – even as they change.

The evolution of the automobile sales process is not complete. As virtual reality technology improves over time, one of the last hurdles to a purely digital shopping experience may fade away, allowing the customer to experience that "new car smell" without ever even visiting the showroom. Adding this to the already complex web of digital technologies that define the new purchase process will require time and some trial and error, but be assured it is coming. When it does, it will make for an even more exciting and challenging arena for OEMs, their dealers and technology suppliers.

Thriving in the automotive industry of the future will require continued sophistication in sourcing and managing data analysis, digital expertise and integrative skills. Is your organization ready? If you would like to discuss how these challenge and opportunities affect your company, contact an ISG advisor.

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