

GLOBAL EDITION

# BENCHMARKER



## (R)EVOLUTION OF RETAIL

OUTLOOK 2025

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**Parts – more than just a part of business**

Just how important is it to offer a smooth parts purchasing journey?

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China's rising domestic popularity and its global ambitions

# DIGITAL RETAIL AND MAINTAINING THE CORRECT FOCUS

Digitalization. Connectivity. Urbanization. We hear these words every day but often don't consider the actual implications in our lives.

The internet is connecting everything together, and cars are no exception. As consumers get more familiar with digital connection and expect more connectivity, a seamless online-to-offline experience needs to be embraced. The automobile industry—which is largely analog—will have to implement means of digitally connecting with consumers in order to meet changing expectations of what it means to shop.

More people are moving into cities where space is limited, meaning less room for personal vehicles. Newer mobility solutions will be required to address the influx of people in more concentrated areas.

We can expect a lot of changes over the next few years as customers' demands and expectations shift. In this issue of Benchmarker, we will analyze how the market is changing and how retail will have to follow suit. We will investigate how the technical and warranty process will need to be modified to better accommodate the connected consumer of tomorrow. We will examine the growing role that e-commerce will play with parts sales and service. We will analyze the growing importance of fleets and how it will be necessary to optimize the entire approach to managing them. As all of these affect the retail of cars, we will also explore how traditional retail performance-management goals and methods will need to adopt newer ideologies to remain relevant.



**PATRICK KATENKAMP**

CEO MSXI, Retail  
Network Solutions

Automotive retail in 2025 will no longer be a chain from manufacturer to dealer to customer but rather an integrated network, with all parties working more closely with each other. As with any (r)evolution, there are going to be some challenges to overcome, but there are also going to be many opportunities to explore.

“Every piece of our business is **changing**”

Bill Ford - Executive Chairman Ford Motorcompany

But in the end, the new focus of retail is not about the technology. It's about the people. Technology doesn't exist in a vacuum and the question is how will we adapt and how do we keep the focus on people? That is what we will be truly exploring in these articles. I am proud to present the December 2018 issue of Benchmarker, and I hope it enlightens you of the forecast of automotive digitalization in 2025.

**Patrick Katenkamp**

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## CONNECTIVITY AND OMNI-CHANNEL

**14 hours**

of research before initiating buying journey by customers.



**60% of customers**

don't visit the OEM website at all.



By **2020**, more than

**250 Million vehicles** will

be connected globally.



**Most customers**

have 6 or 7 purchasing touchpoints.

## ELECTRIC VEHICLES

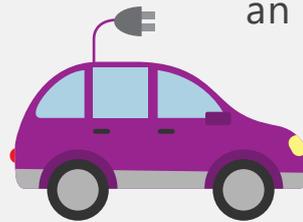


**89% of EV owners**

prefer to go to OEM or authorized dealers for repairs and maintenance.

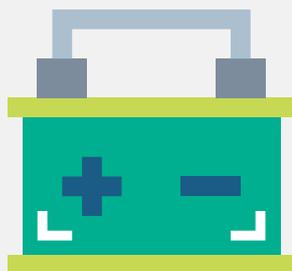
**By 2025, EVs and HEVs** will account for

an estimated **30%** of all vehicle sales.



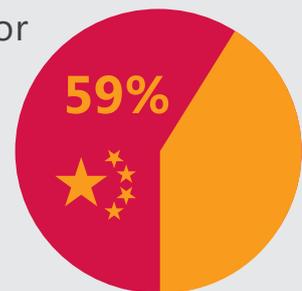
**Norway** aims to sell **only electric vehicles**

by 2025.



**China** is expected

to account for **59% of EV** global sales by 2020.



## AUTONOMOUS VEHICLES

**As much as 78% of US drivers** express fear at riding in a fully autonomous vehicle.



**Up to 84% of drivers**



would use their time for other activities.

**63% of US pedestrians and bicyclists**



are skeptical of sharing the road with autonomous vehicles.

**More than 80% of accidents**

involving self-driving cars is due to other drivers hitting the autonomous car.



## MOBILITY

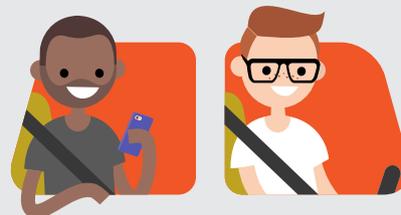
**88% of new cars** are bought on finance.



**68% higher overall costs** for financed cars as opposed to outright purchasing a car.



**Most car owners** will only consider switching to subscription-based car sharing if it was **55% cheaper** than owning.



**72% of people** are willing to **share cars**, but only **2%** with complete strangers.



# THE NEW FRONTIER OF AUTOMOBILE INNOVATION

The automobile, mechanical to its soul, will need to compete in a **digital world**.

Source: Mc Kinsey

The catalyst throwing the automotive industry for the biggest loop since the invention of the internal combustion engine is digitalization. The entire landscape is changing as technology advances, and the highly fragmented automotive retail industry is in for some redefining revolutions over the next few years.

Electric vehicles will make up a larger portion of automobiles on the road, partially due to customers' demands but also because of environmentally focused requirements. With fewer parts, all of which are high quality, EVs will need less service calls, which is a large revenue stream for dealerships.

Automatization and digitalization will enable fewer people to do more tasks, meaning less personnel will be needed in factories as well as in dealerships. However, pop-up stores, virtual reality displays, and other newer technologies will offer jobs that aren't around today. Current sales and service personnel will likely shift into a newer position resembling that of a personal account manager, dealing with not only the sale of a new car but also the additional features and services that come after that. A more data-orientated and customer-centric approach will be necessary. You need to have data, but you need to also accurately and effectively use it. Currently, information is divided into data silos, and not all systems are communicating with one another. Integrated platforms will need to address this.

These struggles are putting pressure on automobile manufacturers to innovate. R&D costs are increasing every year as OEMs try to stay at the forefront of digitalization, electric vehicles, and stricter emissions



standards. R&D cycles will have to get shorter to avoid locking up money in research, so effective platforms will need to be adopted.

### Digitally Connected Customers

One notable characteristic of cell phone manufacturers is the business model—app markets, where a lot of revenue for Apple and Google is made. It will be similar with automobiles in that OEMs are going to have to offer a complete package of services like roadside assistance, insurance, predictive warranty and maintenance, and other features that would interest drivers.

Second, only to utilities, the **automotive industry** is the **most data-driven** industry in the world.

Source: Forbes

More revenue will have to come from subscription services that offer long-term value to the customer in order to deal with the narrowing profit margins on the sales of a car.



**PIETER VAN ROSMALEN**

**Global Vice President and Chief Product Officer**

As Chief Product Officer for MSXI since February 2018, Pieter van Rosmalen leads a team focused on two essential activities: Product and Partnership Development; responding to the key trends of digitalization, connected car, and mobility that are driving change in our industry. Pieter was the Vice President of Retail Network Solutions at MSXI from March 2011 until 2018 and he previously served as Vice President Retail Network Solutions for Europe and Asia Pacific. He can be reached at [pvanrosmalen@msxi-euro.com](mailto:pvanrosmalen@msxi-euro.com).



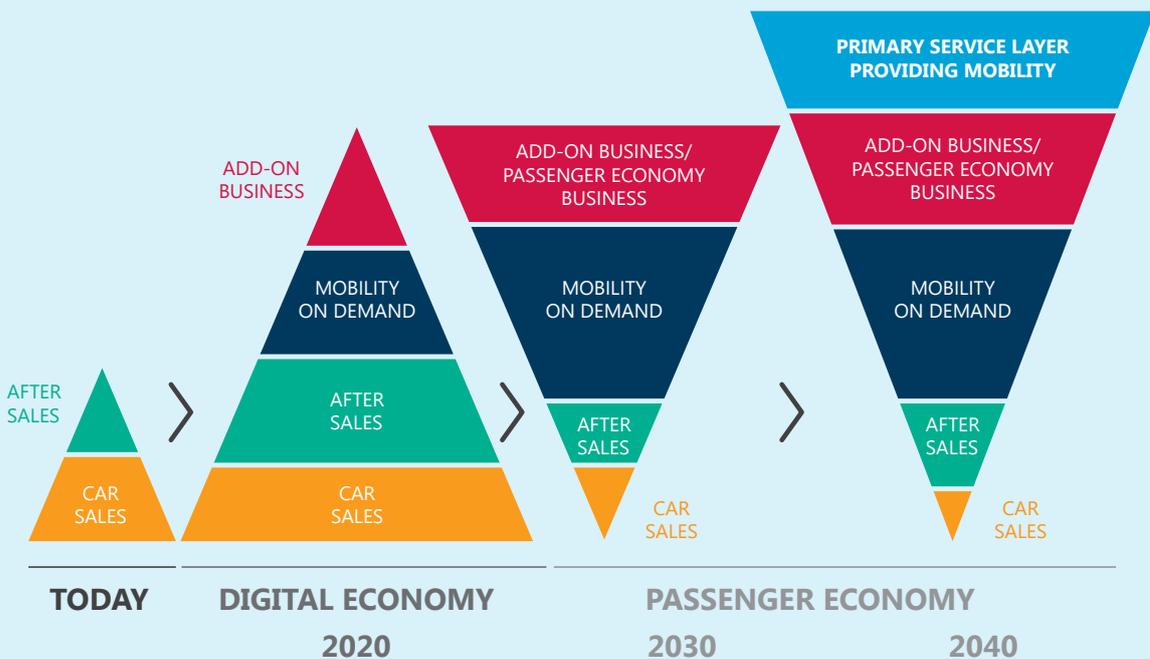
Automobiles manufacturers are not used to offering more than just the car, but additional services will be necessary in the mix. Effective manufacturers will aim to shift their focus from the sale of the car to the continued subscription to post-sale services. The margins on selling cars will get ever thinner, so aftersales and downstream services will have to pick up the slack.

It will be important to consider the total cost of mobility. Manufacturers can offer margin-squeezing prices, but if the target audience can still find other, cheaper solutions to get to their destinations, OEMs will lose potential customers. Personal car usage needs to be considered within the entire scope of all mobility solutions, and it will have to seamlessly fit into their other options while being financially viable.

## The New Value Chain

**AUTOMOTIVE MARKET REVENUE POOLS:**  
(Indicative size, OEM View)

- Retailers will drive clients to their shops
- Hospitals will drive to patients
- Cars will be mobile hotel rooms or pubs
- Employers bring employees to work
- People will buy mobility from companies serving their primary needs
- The term car won't be used anymore in 30 years



Source: Accenture

Dealerships will have to reposition themselves. They were the liaison between customers and the OEM, but OEMs will have more direct contact with customers in the future.

### But How Soon?

Profits are going to get tight on new car sales. More fleets as well as digitalized and electric vehicles will result in fewer cars sold. Manufacturers are going to have to shift the business model to capitalize on continuous revenue streams from customers. Loyalty and customer satisfaction will dictate how long a customer remains with a manufacturer, so ensuring a smooth customer experience is paramount.

Automotive companies need to shift up a gear if they want to grasp the **opportunities** that **digitalization** brings.

Source: Simon-Kucher

Change will come—it's just a matter of how quickly. Will we have a completely integrated experience with minimal staff at dealerships by 2025? Will the



## Automotive Disruption Globally

**Customers show interest in autonomous vehicles and start to accept electrical vehicles as an alternative, but regulation enabling disruption are not yet in place.**

*Insights are based on a customized survey of more than 10,000 car users, interviews with leading industry experts, and comprehensive research using the latest available sources.*



Source: Roland Berger

electric grid be improved enough to sufficiently provide energy for the growing amount of EVs? Will manufacturers have embraced a comprehensive aftersales subscription package? It's hard to say, but these changes are definitely coming around sooner rather than later, and the automotive industry needs to be prepared.



# HOW TECHNICAL AND WARRANTY SUPPORT WILL LOOK IN 2025

Digitalization is the driving force behind many modern changes in the automotive industry, and the way technical support and warranty administration will function is not exempt. Modern technologies are enabling cars to be more connected than ever, and that will drastically help diagnose mechanical and software issues and make them easier to fix.

**Over 72 million** new cars will be fitted with connectivity **by 2025**, representing a significant majority of **total vehicles**.

Source: MSXI Research

Connected cars will regularly communicate with central databases managed by manufacturers. Sensors in cars will monitor the status, watching for errors and communicating anything noteworthy. These databases will be able to determine if an irregular reading is cause for concern or not, and customers will be called in for repairs before problems truly manifest themselves.

## A Paradigm Shift

Among the many small improvements, the single biggest change will be that dealerships will no longer be left alone to diagnose an issue present in a car. The standard method has been that a customer would have an issue with the car, and then the car would then need to be brought to the shop, where mechanics would need to find out the underlying issue before fixing it.

This outdated model has some serious drawbacks. The fact that an issue needs to actually occur before repairs can commence means that more grievous damage can be done. If OEMs could detect issues before they

become dire, the problem could be preemptively addressed, preventing customers' frustration and saving repair costs for OEMs. Dealerships are also left to investigate what the issue actually is, which can often be difficult. After all is said and done, OEMs get little feedback about defective parts.

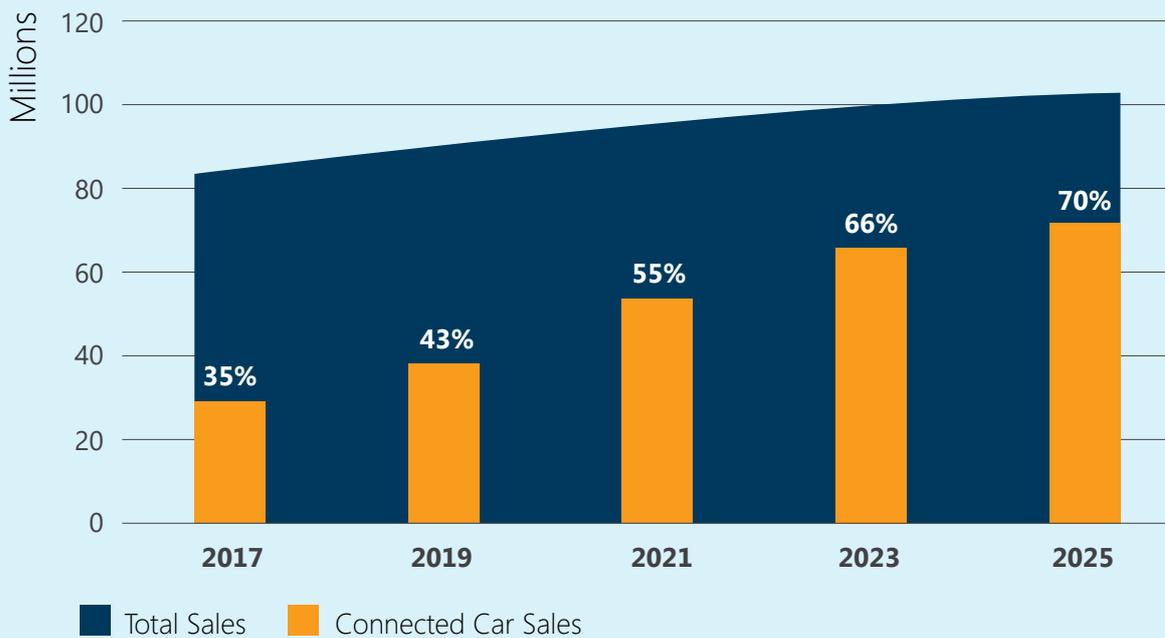


**MIKAEL WEPSALAINEN**

### **Global Director Warranty & Technical Products**

Mikael leads the MSXI Warranty and Technical Product function responsible for developing and positioning the full range of MSXI products. He has a deep passion for the current automotive development towards the future and the innovations required to support this development. Mikael works alongside the organization's sales and operational teams helping them add value to a growing global client base. He is based in Gothenburg, Sweden and can be reached at [mwepsalainen@msxi-euro.com](mailto:mwepsalainen@msxi-euro.com).

## Global Connected Car Forecast



Source: MSXI Research

The **technology gap** at retail increases with **technology evolution**, powertrain diversity, increase of electrical components, and **car connectivity**.

Source: MSXI Research

In the near future, repairs will be done proactively with direct oversight by OEMs. They will gather data on many cars, identify parts that are malfunctioning, and then alert the customer and inform the repair facility of what needs to be addressed. This also ensures that repairs have been approved and do not require further administrative oversight or cause any friction between uninformed departments. Dealers will no longer be left to diagnose issues by themselves. Instead, OEMs will support dealers and repair facilities by delivering customers to them and providing guidance on what repairs need to be carried out. An intelligent database would deliver diagnostic and repair instructions directly to the dealers so they could quickly address cases and track what has been approved and worked on to eliminate any confusion.

### Satisfaction on all Sides

The act of proactively addressing issues helps alleviate more serious damage to vehicles, which makes the customer happier and lowers maintenance costs for OEMs. With connected cars, OEMs will also be able to monitor cars to ensure that carried out repairs did indeed fix the supposed issue.

Customers get a hassle-free experience. Repairs are done right the first time and warranty claims are preauthorized to ensure a smooth process during every step of repairs.

Dealers no longer have to worry about wasting time diagnosing issues they don't have enough data for. Customers will be delivered to them with a profile already informing them of the issue and what steps need to be taken to resolve it. There will be no more bureaucratic overhead with warranty claim approvals, as those would already have been authorized by the OEM and no further inquiries by other departments would need to be made.





Manufacturers will have direct contact with end consumers and could monitor how all cars are performing. They would gain a better overview of what parts need addressing and could adjust their response to ensure all dealerships have the correct parts and training. Increased customer satisfaction would lead to higher loyalty and a higher Customer Lifetime Value. In addition, offering connectivity and monitoring via subscriptions after warranties expire could be a further revenue stream.

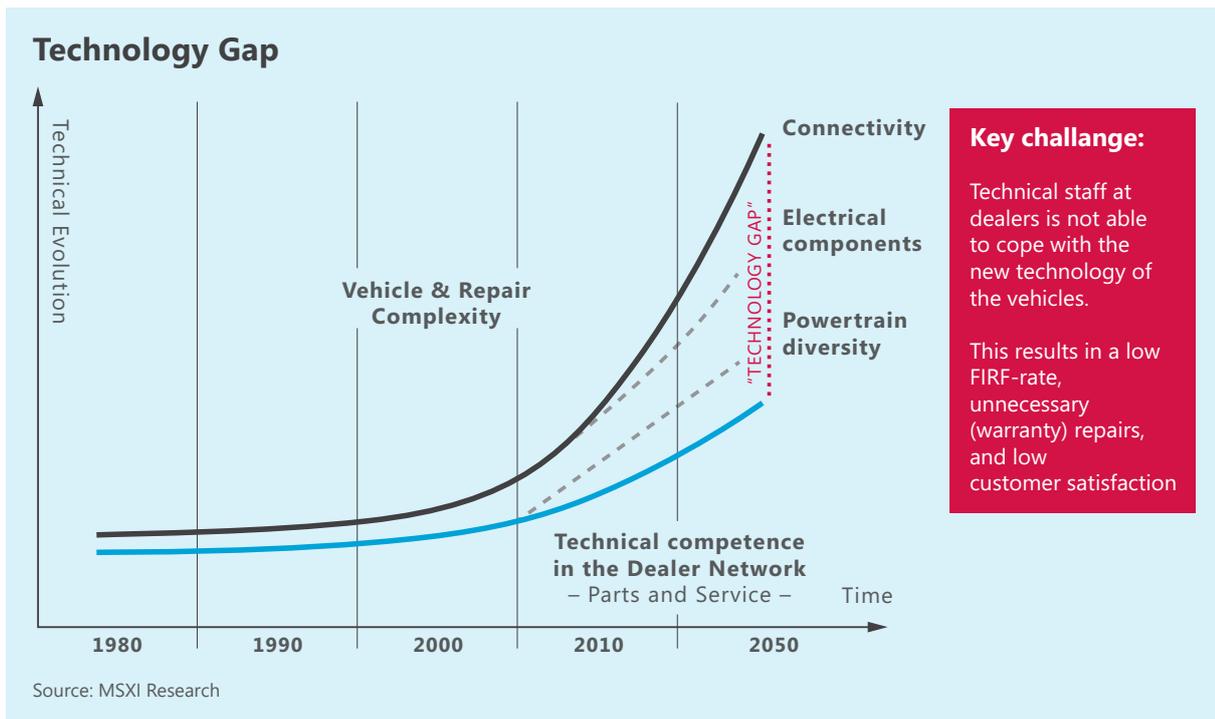
### Working Together

In order for this to work properly, everyone involved is going to need to participate. This platform will span all the way from the producer to the consumer, whereas things are currently much more disjointed.

Consumers will have to be okay with their car constantly sending data to the manufacturers, and manufacturers are going to need to correctly gather and process all this data. Dealerships will have to adopt a new method of dealing with repairs.

MSX International will be doing its part to ease the growing pains by helping manufacturers and dealerships prepare for this change as well as constantly providing assistance as technology further develops.

Technical support, repairs, and warranty are going through a new awakening in the automotive sector. The future will be smoother, more convenient, and less expensive, and everyone should be looking forward to it with doors wide-open.





# THE SHIFTING PARTS MARKET – FROM TODAY TO 2025

Vehicle design is rapidly changing, and this will have a strong impact on both the volume and type of parts that new vehicles require. There is a growing awareness that the dealer network role is changing and that the type of activities that OEMs and customers expect from dealers will change. The volume of new vehicle sales is rising but the increased level of vehicle usage, resulting from increased mobility services and parts reliability, has yet to be understood in detail, and it is important to find out how they will influence the traditional parts-sales model for OEMs and dealers.

OEMs need to look **further beyond new-car sales** and become more involved in the traditional playing fields of the **independent aftermarket**.

Source: Mc Kinsey

Traditionally, OEMs generate increased aftersales and service activities by pushing parts sales through their networks or through parts wholesaling with a specific focus on independent repairers supported by OEM programs. The customer experience and retention of existing aftersales customers and short-term purchases from independent repairers is vital, as loyalty needs to be earned rather than bought.

OEMs will have to drive higher parts revenue as their business model undergoes significant changes in order to open new revenue streams and manage the costs of vehicle-technology development. The parts business mix requires expansion to better exploit all sales channels.

Loyalty is based on trust and overall experience, and it is therefore important that OEMs review the way in which they support all consumers, rather than backing only the traditional channels.



## The Importance of Service and the Consumer Experience

OEMs offer owners and users enhanced services through their network using tools such as electronic vehicle health checks and technician videos to enhance trust, further evident with the growing presence of “express service” outlets.

There are some **fundamental shifts** happening in the way **consumers** repair their vehicles, buy parts and access services.

Source: Forbes

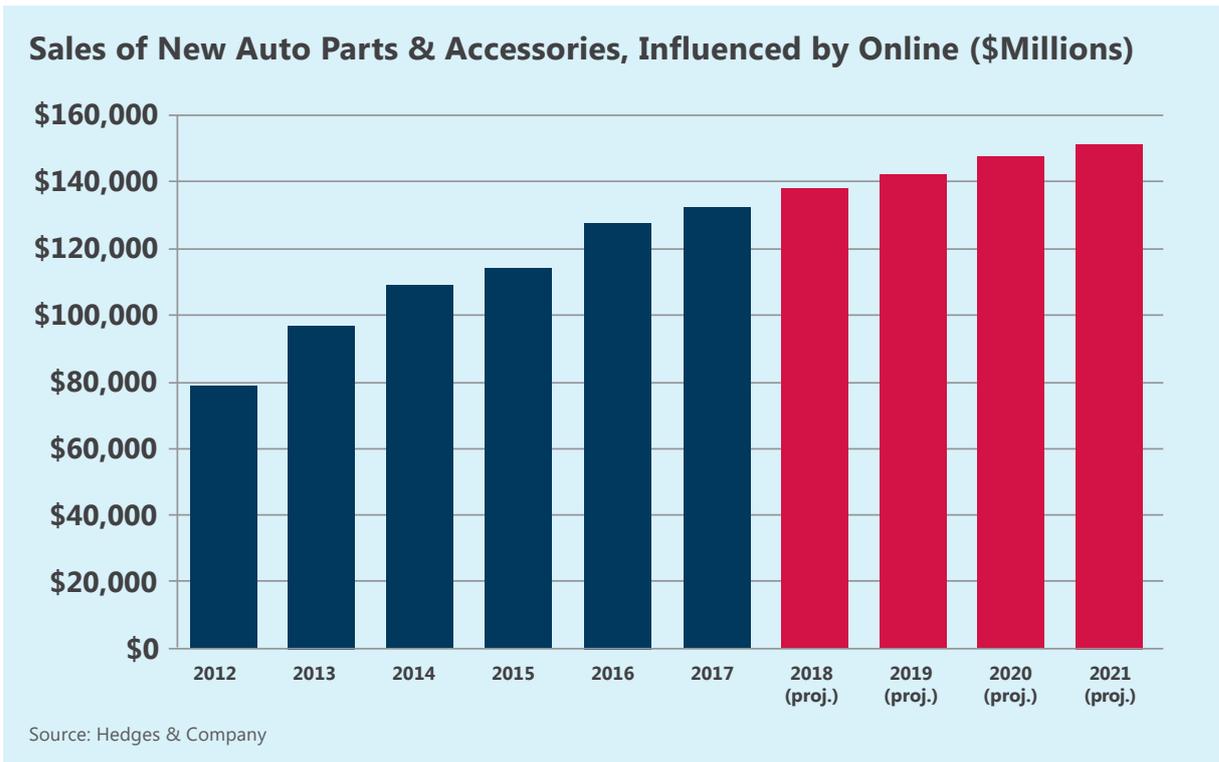
This experience is dependent on the actions of dealer service teams. However, their ability to remain attractive to existing and new customers depends not only on the experience that they offer but also on the pricing level of parts. The impact of non-competitive pricing is often not obvious to dealers or OEMs because the traditional measurements of service are throughput, capacity, profitability, and CSI. What is not obvious is the level of business lost due to parts pricing. When customers are faced with a quote that includes parts that they perceive to be too expensive, they look for other options.



**DAVID JOHNSON**

**Global Product Director**

David joined MSX International in November 2007 and works in Retail Network Solutions as Product Director. David's data expertise led to the introduction of MSXI Analytics as a key pillar within the full range of solutions offered, and he continues to develop solutions that answer business needs. Dave's mechanical engineering background first landed him a position at Clifford Thames. Afterwards, he worked at IHS (R.L. Polk), where he worked on various projects including implementing aftersales and CRM programs for multiple automotive manufacturers before joining MSXI. He can be reached at [djohnson@msxi-euro.com](mailto:djohnson@msxi-euro.com).



**Ten to 15%** of all global parts revenue will be generated online **by 2025**, including both developed and emerging regions.

Source: Frost and Sullivan

#### Fleets, Reliability, and Uptime

Fleet profiles will significantly change as “drivers” become “users.” Fleet loyalty results from how an OEM provides support and ease of doing business with fleets using key measurements such as vehicle uptime, user experience, and mobility costs. Parts availability and pricing play a key role, whether it be an OEM-based delivery to fleet workshops or fleets being serviced through OEM service outlets.

Fleet uptime requires high parts availability and convenience of fitting.



#### Don't Forget about the Independent Repairers

With increasing vehicle complexity, the type of work that these outlets carry out will change unless they are part of a group that offers support, such as concept garages. It is therefore critical that OEMs also pay attention to repairers not directly in their network to gain their long-term loyalty.

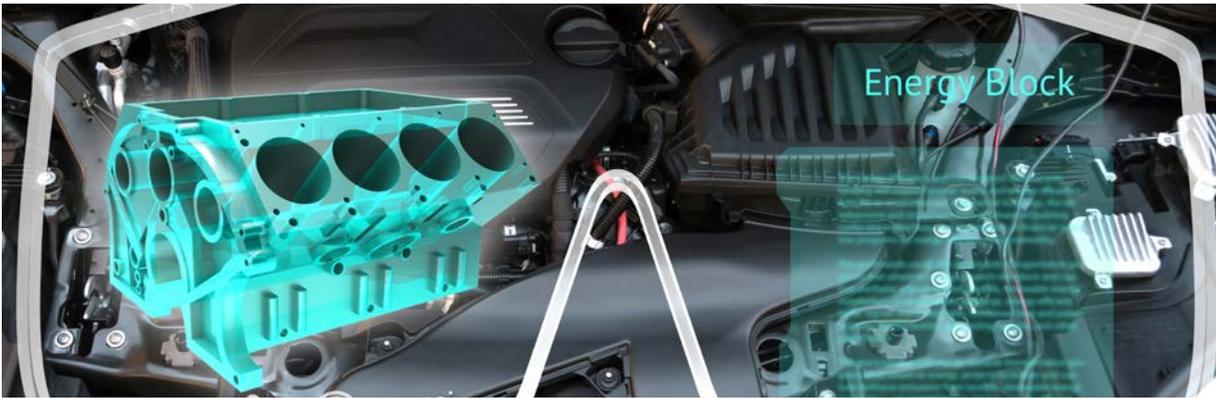
Typical consumer perception of this group is that independent repairers offer better value than the OEM networks as well as a friendlier service. This is where the consumer experience plays a big role and therefore independents have their own “niche.”

For OEM parts sales to be successful, it is important that independent repairers are served with reliable and regular deliveries and that their experience is seamless and rewarding. This requires parts ordering to be simple and competitively priced. These specialists know what they need and which alternatives are possible, so OEMs will need to offer reliability and trust.

#### Online Part Sales and the Digital Push

Online sales are growing across all industries. The automotive sector is experiencing significant challenges from a range of automotive competitors as well as “household” retailers. OEMs currently have limited presence and are often not an integral part of the OEM-brand experience. This results in networks recognizing need and creating their own presence, which distracts from the brand.

OEMs need to respond with a strategy that offers flexibility of execution that will support both B2B and B2C. The key to success is pricing that is attractive



to end customers with presence on a range of platforms, including sites where potential customers are already shopping.

### Collision Business

This channel is often considered by OEMs as being driven by insurers. The ability of OEMs to serve this group is restricted by the lack of transparency in the marketplace and limited response to competitor parts pricing. Insurers also demand different part qualities, often resulting from repair viability and vehicles age.

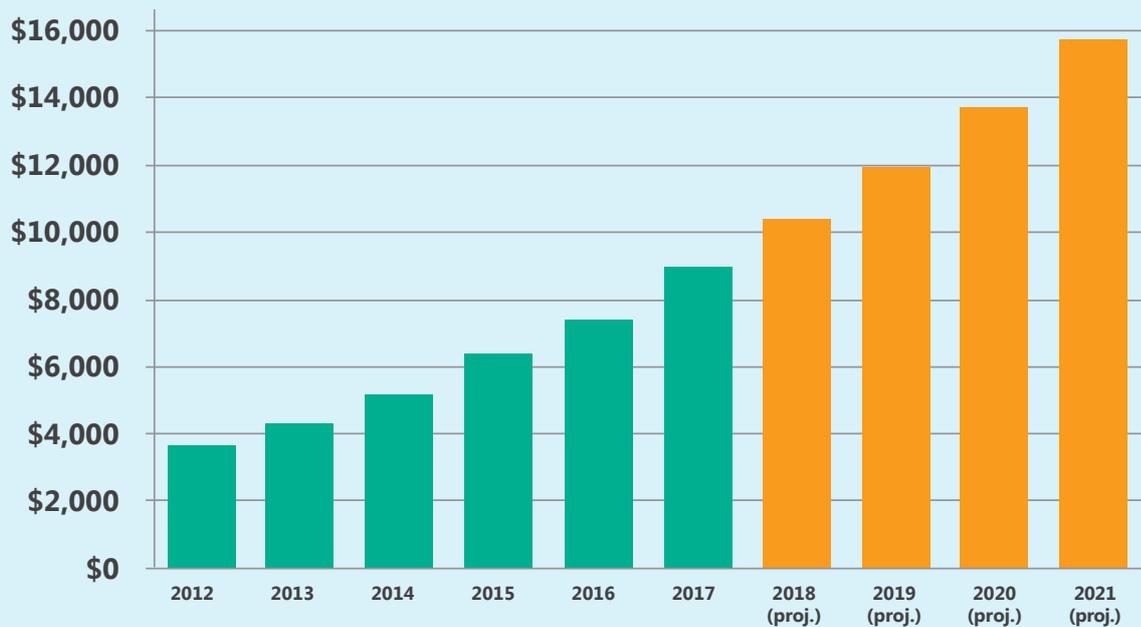
### Offering an Effective Parts Mix in 2025

It is critical that OEMs develop collaborative parts-channel strategies that embrace the opportunities that each channel offers. For this to succeed, OEMs need

to establish a presence that reflects the natural choice that is now commonplace within retail. The B2C retail world will remain a significant challenge due to the presence of incumbents like Amazon and eBay, where the ease of doing business is key to the consumer experience.

OEMs have multiple opportunities to serve the needs of B2B through a strategic management of channels. To be successful, OEMs should gain greater awareness of the increasing competitor landscape as the strength of competitors increases pricing sensitivity. The different levels of parts—Good, Better, and Best—that are currently offered by OEMs require clarity in their positioning, pricing, and range to engage consumers, together with delivery to drive loyalty for sustainability. OEMs need to look at the entire brand experience and offer a seamless parts-ordering process at every level to ensure consumer satisfaction and long-term loyalty.

## Online Sales of New Auto Parts & Accessories, Excluding Online Auctions (\$Millions)



Source: Hedges & Company



# THE SIMILAR PATHS OF RETAIL, HOTELS, AND DEALERSHIPS

Many in the industry perceive digitalization as the boogeyman that is going to be the downfall of many businesses, but that doesn't have to be the case. The hotel industry has rapidly adopted digital measures. Retail stores are also undergoing some extensive digitalization measures. The automobile industry can do the same.

Digitalization is not about destroying all physical locations to live in an online-only environment. Digitalization is about properly using data to offer customers the experience that they want. A proper digitalization strategy enables the customer to engage with the brand in a manner that is convenient and enjoyable.

The global automobile industry is on the brink of a **major transformation.**

Source: Goldmansachs

## Hotels, Retail, and Data Implementation

The automotive industry could learn a lot from the retail and hotel industries. Ever since the inception of the internet, hotels have been digital solution-implementation leaders. Online bookings was only the first step. Then came aggregation sites like Expedia and TripAdvisor. Some hotels are now enabling guests to go directly to their room and unlock it with their smartphones.

Customers can approach the entire hotel experience however they want. You can call for reservations, or you can do it online. You can check in at the counter,

or you can do it in front of your room. It can be digital or old fashioned, as you prefer.

The retail industry has been going through these changes for a while. What used to be brick and mortar stores are rapidly becoming the so-called brick and clicks. There have been many online-only stores, but even that is changing.



**ROB VAN RIJSWIJK**

**Vice President Product Management**

Rob leads the MSXI Global Product Management Team. He is responsible for developing and positioning the full range of MSXI products and services. Rob has a deep passion for strategic innovation and he works alongside the organization's global account executives, helping them add value to a growing global client base. Rob is based in Cologne, Germany and can be reached at [rvanrijswijk@msxi-euro.com](mailto:rvanrijswijk@msxi-euro.com).



Amazon, a company that started as an online bookstore, has expanded into practically every consumer good in its online offering. But even Amazon sees the value in physical locations and already has dozens of physical locations.

Why? Some people might enjoy the classic model of going to the store, talking to sales agents, and walking out with their purchase. At the opposite end of the spectrum, some people do not wish to engage with others in person and would rather inform themselves and make their decision while on their phone. And then there are countless people anywhere along this continuum. The answer to the question of *why* is customer satisfaction.

With a proper omni-channel approach, a physical location makes it possible for customers to come into the store and try something first. They can buy things

online and return them to the store. They can buy something online and have it delivered to their place or the store. The possibilities offered to customers covers all the bases, and it invites customers to approach the purchasing journey as they wish.

### Disruption: A Catalyst for Improvement

New competition from agile companies with little overhead are threatening many markets. Airbnb has put pressure on the hotel industry just as Uber is threatening the mobility market. Real estate costs are further pinching profits, but that only means that dealerships need to correctly reposition themselves.

The main facility or lot for dealerships might need to move farther out of town, but that doesn't mean that customers need be inconvenienced. Pop-up stores and branded cafés could invite customers to come in while cars they want to see or their car that is being worked on is brought to or from the facility located farther out. It would entail a waiting time, but it would enable customers to go to a much more convenient location.

However, in order to provide the most optimal service possible, a much more important issue needs to be tackled.

The issue of **silo management** is back on the problem list. The culprit: new technologies, from wearables and IoT to blockchain.

Source: Hewlett Packard Enterprise

### Three Elements of an Omni-channel Experience

#### RELEVANT CONTENT

The right content at the right time



#### ANYTIME, ANYWHERE

Access information 24/7 seamlessly using any channel

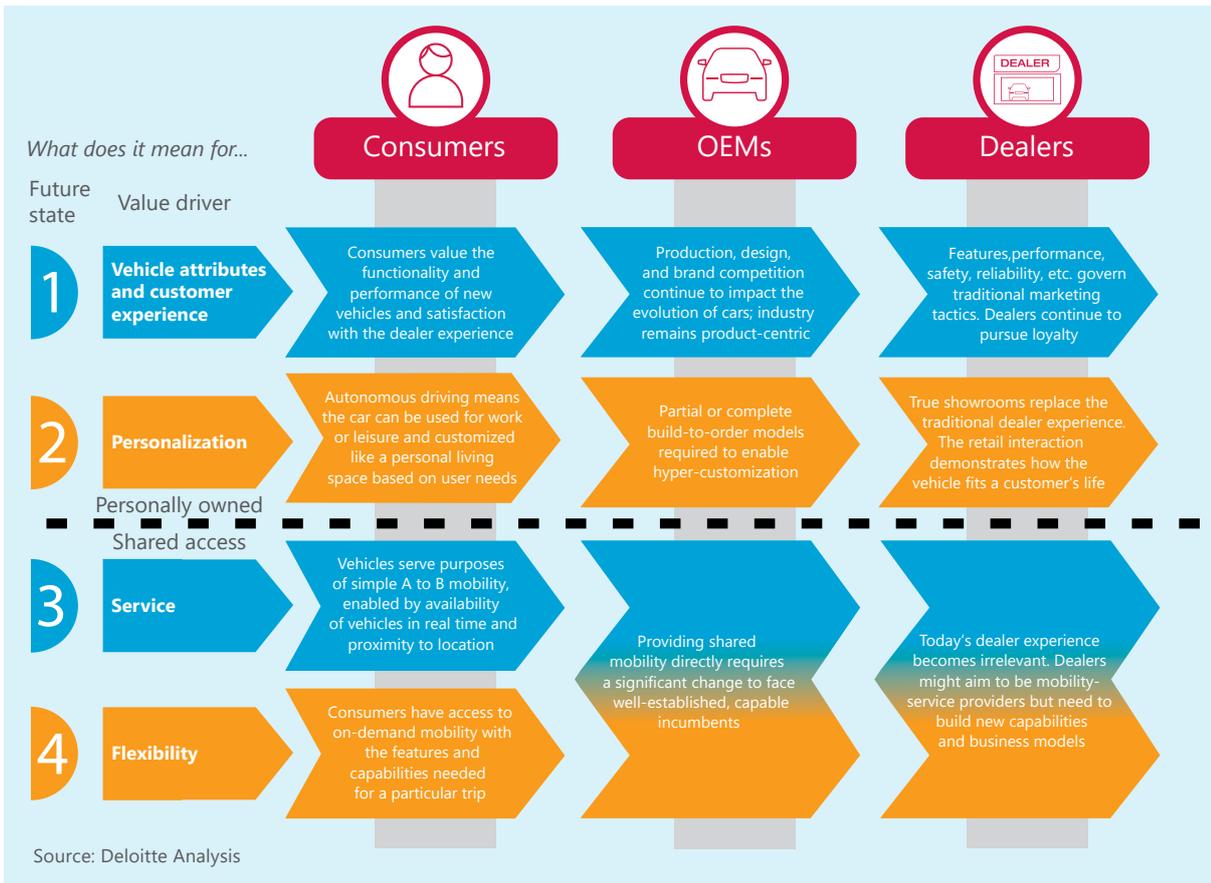


#### COMPLETE BUYER PROFILE

Analytics and rich data from multiple sources



Source: Aimdek



## Don't Go at it Solo

Automobile companies that are currently struggling are ones that are struggling to take advantage of all that digitalization has to offer. All players in the auto-retail space are jealously guarding their data. That needs to change.

The silos of data is a crux this is not enabling all partners to work as efficiently as possible. OEMs are gathering massive amounts of data, but that isn't being integrated into a system that dealerships can work with and vice versa.

It's critical to not forget that automobile companies are going to be service providers in the future and not just purveyors of products. Cars are used for transportation,

deliveries, or many other uses. Dealerships will be one of the many contact points that end users will have in an omni-channel approach, and it is vital that they are on board with the entire program and that manufacturers support and integrate them.

Consumers are clamoring for individualized mobility solutions at acceptable prices. But for that to work, there needs to be many solution providers, and the storefront and manufacturers need to be working in unison. MSXI is constantly innovating new methods of removing data silos and increasing integration between dealerships and OEMs so that all parties can operate on full throttle.

Whichever OEM manages to eliminate their data silos first will get a massive advantage.





# GETTING ACCESS TO FLEET CUSTOMER IN A NEW MOBILITY ENVIRONMENT

Fleets are going to be more prevalent than ever as society's attitude toward car ownership shifts. A fleet can constitute a variety of forms such as rental cars, carsharing, taxis, commercial delivery trucks, public utility service vehicles, and so on. Any operator that owns and manages multiples cars can be considered a fleet, and they all have similar pain points.

Car sales growth will slow down on average over the next few year, but fleet-managed vehicles will make up a larger part of the mix. Ensuring you correctly tap into this growing segment of the automobile market will be vital for long-term success.

## Your Average Driver in 2025

Urbanization will play a major role in shifting consumption behavior in the next few decades. As more and more people move to cities, space will come at a premium—and with it, parking space. Cars are also just not quite the status symbol they used to be. Younger generations, at the tail end of a worldwide recession,

are more environmentally conscious and just want to get from A to B and aren't concerned with showing off. These and other factors are going to cause a reduction in privately owned vehicles, and many will opt to use a vehicle provided by a fleet operator.

Mobility as a Service (MaaS) will play a bigger role in automobile customs, and that could materialize in many different forms including renting, carsharing, and usage on demand. Autonomous vehicles will make these alternatives even more enticing. Fleets will be vital in 2025, and it will be important for everyone in the supply chain to correctly position themselves to deal with increasing competition.

## Manufacturers, Dealerships, and Operators All Feel the Crunch

One issue that many fleet operators have to deal with is that individual users often aren't interested in ensuring cars are repaired. Depending on the size of the fleet, maintenance and repairs need to be carried



out by only a handful of people, and this can be time consuming.

Fleet operators are bombarded with many different invoices from various repair facilities. An administrative headache ensues as operators need to sift through all the invoices and then pay them. This invoice management necessitates a lot of overhead that could be avoided.

**By 2025**, the vehicle will be sophisticated enough to configure itself to a driver and other occupants.

Source: Frost and Sullivan

It will be necessary for OEMs, dealerships, and operators to capture more of the new fleet customers, but it isn't as easy as going outside and roping them in. And once these new fleet customers are won over, the financial and organizational problems that assail fleet providers will become even more profound.

### Alleviating the Pressure

It will be difficult to deal with all these various strategic and operational issues, but with the right tools and solutions, companies will be able to ride the waves



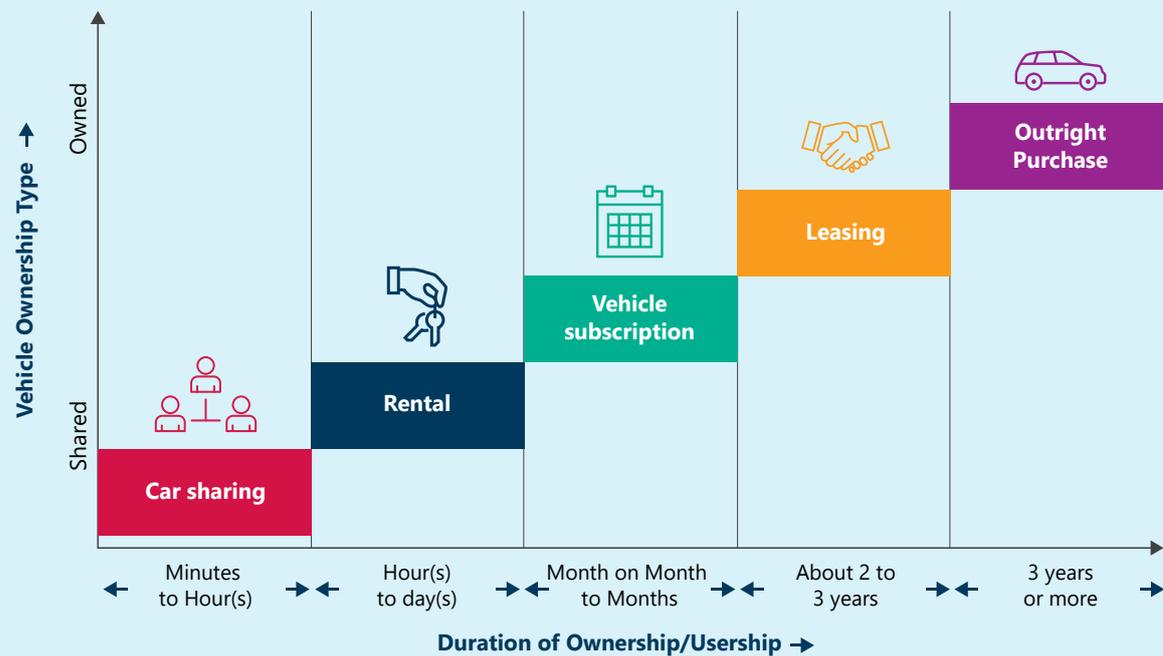
**RALF BIERMANN**

### Director Product Planning

Since joining MSX International in 2011, Ralf has taken on an increasing amount of responsibilities, resulting in his current position. He is now in charge of the product planning for global solutions and systems in the areas of parts and service, fleet and mobility, RPM, CRM, and warranty. Ralf brings to MSXI an impressive set of skills from extensive agile IT and managerial-level experience in automotive companies like Kia, Volvo, and Jaguar, as well as other automobile-related companies. He can be reached at [rbiermann@msxi-euro.com](mailto:rbiermann@msxi-euro.com).

## New Vehicle Usership/Ownership Models

Over 50 vehicle subscription offerings expected in the market by end of 2018



Source: Frost and Sullivan

of change. A new approach will be necessary, and the entire fleet market will need to adopt new methods of administering fleet customers and acquiring new customers.

In order to expedite repairs on fleet vehicles, a pre-authorization logic should be embraced. This would enable dealerships to quickly start repairs instead of waiting around for approval from fleet owners to start working. Quicker repairs and vehicles that are more reliable will foster higher customer satisfaction, and word-of-mouth marketing by happy fleet customers will help bring in more business.

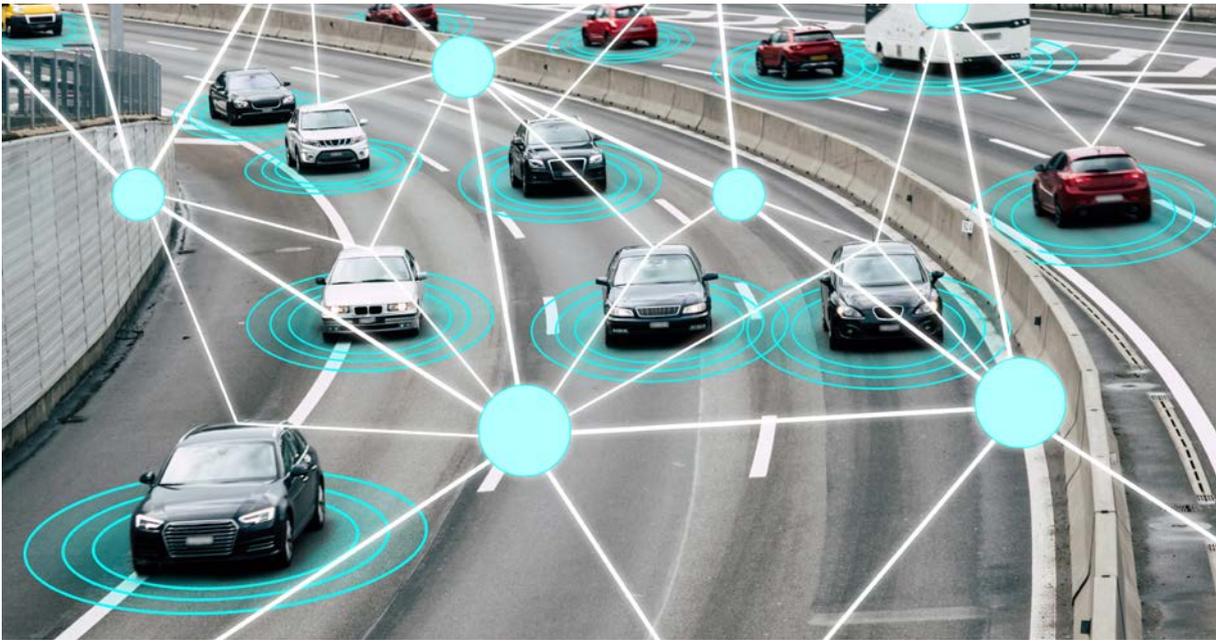
Within a more complex and diversified **mobility industry landscape**, incumbent players will be forced to simultaneously compete on **multiple fronts** and cooperate with competitors.

Source: Mc Kinsey

Consolidated invoices bring a lot of clarity and transparency to all involved parties. The unnecessary amount of paperwork that comes from using multiple different dealerships necessitates a large back office. If done properly, dealerships could even get instant payments instead of having to wait for fleet operators to pay.

Aggregating all forms of customer contact in one database enables easy follow-ups. By collecting information from all venues—such as online forms, in-person visits, phone calls, etc.—an effective set of data can be compiled to prevent any potential sales opportunities slipping through the cracks.





Making the fleet process easier for customers and optimizing your processes to get a larger slice of the growing fleet pie will be important to remain competitive.

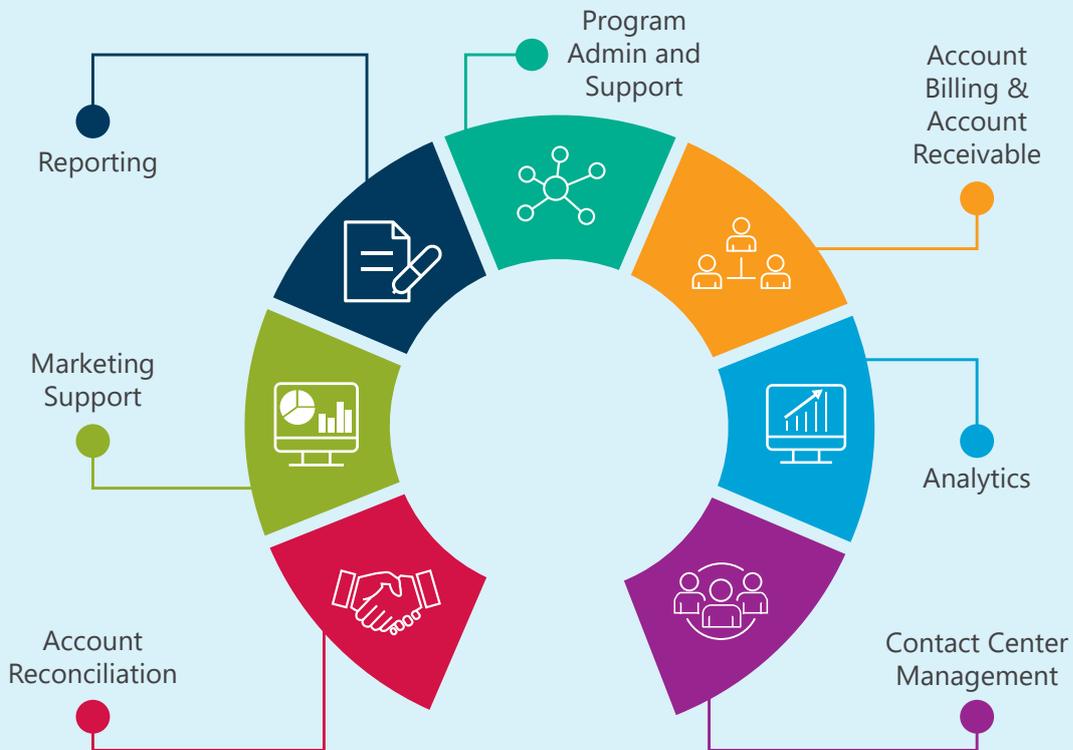
### Tomorrow's Cooperation, Today

New tools and methods have the potential to alleviate a lot of the troubles that fleets do and will experience in the next few years. Lowering overheads and using a

holistic approach to acquire new fleet customers will be the key to success in 2025.

Just like a fleet is more than one entity, you don't have to take on the future alone. MSX International has and still is developing new platforms to help you integrate into the future fleet market by smoothing out fleet administration and gaining more customers along the way with our digitally innovate solutions.

## Fleet Service Loyalty Management



Source: MSX International



# REMAINING CONFIDENT IN THE FACE OF UNCERTAINTY

We were presented with the opportunity to interview Robert Forrester, the CEO of Vertu Motors. We wanted to learn more about his motor group and were curious about his opinions on the state of business in the upcoming years.

When some women get their hair done for **£ 80 every week**, it is totally understandable that a **once-a-year service** visit would cost **£ 200 or more**.

Robert Forrester

How do you see your role as a dealer in 2025?

I actually don't see things changing as much as some people think. Most people will still use a private vehicle. There may be a higher proportion of people using a leased car, but that doesn't really matter. A lot of people are already financing their vehicles, and it won't really change our daily operations. We will still be servicing cars and selling used and new cars in most franchises.

Online sales will likely become more prevalent, and there will be far fewer showrooms in each franchise to buy from. The core operations and the importance of a smooth customer interaction and fantastic experience delivery will not change much.

What do you see as your biggest threat as an automotive dealer group in the upcoming years?

The economics of the global automotive industry.



**ROBERT FORRESTER**

**CEO Vertu Motors PLC**

Robert has a successful history in the automotive industry. Before starting Vertu Motors, he worked as the Finance Director and later as the Managing Director at Reg Vardy PLC. He is Oxford educated and qualified as a chartered accountant with Arthur Andersen. In addition to his other accomplishments, Robert is a former member of the Economic Growth Board of the Confederation of British Industry and Vice-President of the Automotive Fellowship International. The Group website can be found at [www.vertumotors.com](http://www.vertumotors.com).

When costs go up, margins get thinner. In order to meet emission standards, manufacturers are racing to produce more hybrid and electric vehicles. But this entails high research costs and higher costs of production. The cost of producing such a car will get pushed down the chain. That will lead to fewer dealerships and the need to sell more cars at each dealership in order to generate returns.

That being said, there will be ways of making up the difference. The sales of new electric vehicles might not be as lucrative, but mobility solutions, subscription models, and even charging equipment may provide new revenue opportunities for OEMs and dealers.

Cars are becoming ever more connected. Do you see that affecting dealer operations?

Connected cars are a blessing to the automotive retail scene. A connected car links the customer to the manufacturer and the retail network. Cars will be monitored and offer preemptive warnings and could then automatically book service visits with authorized repairers.

The advantage of a relatively complicated car is that it isn't as easy for third party repair facilities to service the car. This will result in much higher retention in authorized-dealers for service over the long term.

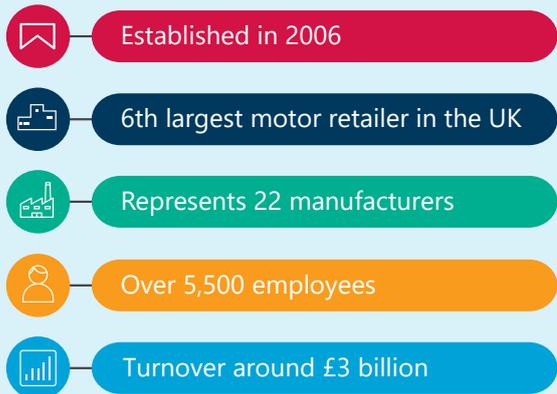
Similarly, electric vehicles are becoming more popular every year. How does that fit into your business mix?

It depends on what you mean by popular. There is no doubt that there will be proportionally more electric and hybrid vehicles in the future. While a small minority of people do want to individually lower their carbon footprint, most customers are not interested and just want what will work for them and what is affordable.

The push for more electric vehicles is mainly supply driven, largely due to manufacturers trying to meet emission standards and avoid fines.

As an auto retailer, we will sell what we are given by the manufacturers. If they give us more electric vehicles, we will sell more, but I don't see that changing how

## About Vertu Motors



Source: Vertu Motors

The **environment is important**, but the laws that politicians pass are stifling the **automotive industry** under too much regulation.

Robert Forrester

we operate in any meaningful way except for the fact that electric vehicle owners do tend to prefer going to authorized service centers. The amount of aftersales-service captures could get very close to 100%, and that would be great.

Founded in 2006, your Group has grown very quickly. What would you say was your key to success?

If you define success as growing quickly, then we aren't doing bad, and we achieved that by creating





a vibrant culture and hiring only the best people to work in an environment where they can receive proper training and have massive opportunities.

However, many would consider success as creating value in the marketplace. In other words, the stock market. The entire industry in the UK has been devalued for a couple years now, so one could argue that we haven't been as successful as we thought. While we are performing better than a lot of our competitors, there is still massive room for improvement.

### Do you have any plans to expand outside the UK?

We don't have any immediate plans to expand or acquire any franchise dealerships outside of the United Kingdom. Operating in other countries always brings with it a set of challenges and difficulties, and we still have a lot of growth potential in the UK, so we are content in that respect.

We are evaluating the expansion of our online parts sales business to more European countries. We already have a successful online parts sales model, and that would be feasible to scale up. This will happen in 2019.

### As a retail group dealing with many international brands, how do you see Brexit affecting your operations?

It's still not entirely clear what the situation will be, but there aren't many options left to choose from. In any case, I don't actually see it as that big an issue.

We sell a lot of non-EU made cars such as Japanese and Korean cars. Brexit would have little to no impact on those and indeed could be beneficial. While it could theoretically be more expensive to

The UK is the **fifth biggest economy** in the world with a flexible and educated workforce. **Brexit won't be nothing**, but we will readily adapt.

Robert Forrester

sell European brands under a WTO Brexit, that is extremely unlikely. Any deal that would restrict the flow of goods would hurt both sides and especially European brands given the balance of payment deficit the UK has with the EU.

I am confident that Brexit will not be as bad as everyone is making it out to be and could actually be very positive in the medium term. The UK economy has inherent strengths.

### What big change or surprise do you anticipate for 2025 that we might not expect?

It would be daft to assume that all current manufacturers and dealerships will still be around in a decade. There is likely to be a lot of mergers and maybe even companies that simply cease operations. Rising R&D costs are a cause for concern. It is also yet to be seen how China's entrance into the international automotive market will play out. I could see assertive Chinese companies purchasing some already established European brands and expanding from there, but it's all conjecture at this point.

I am not too worried, though. The automotive industry is a huge part of the international industrial complex, and it will remain so. There may be some birth pains as changes are introduced, but we will adapt and flourish.



# WHAT'S NEEDED TO CHANGE TO MEET THE DEMANDS OF CUSTOMERS IN 2025

“You’ve got to start with the **customer experience** and work back toward the **technology**, not the other way around.”

Steve Jobs

Today, everybody uses Amazon as the shopping experience benchmark of the future. While this may be true, there are many hurdles to overcome before the automotive-customer journey can even come close to resembling Amazon’s offering. These hurdles can all be boiled down to two bottlenecks: data availability and data usage. Dealers and OEMs are fighting over the ownership of customer data. Both parties are using many different systems that

don’t facilitate the sharing of data, and some of the relevant data is not even captured. Where Amazon has automated processes, the automotive industry still has people working with data and directly addressing customers. Where Amazon knows all about its customers and their buying behavior, most OEMs still don’t have a unique customer number in place—their focus is still on VIN numbers. The automotive-customer journey is far from seamless. Automotive customers today often feel that they are only at the very tail end of the supply chain and not the focus. This will need to change if manufacturers want to satisfy their future customers.

## Three Pillars

The automotive industry is at a decisive turning point. Mobility will reshape the industry. Alternative technologies threaten traditional cash cows like oil by reducing profit margins in workshops. At the same time, OEMs are pushing their own online



sales channels for parts and even new car sales. This causes an unprecedented uncertainty at dealers and OEMs, leading to wariness and incapacitation.

For the automotive-customer journey to have a successful transformation into a seamless user experience, three encompassing aspects of the customer experience need to be addressed: data, HMI, and transformation.

**“If you make customers unhappy in the physical world, they might each tell 6 friends. If you make customers unhappy on the Internet, they can each tell 6,000 friends.”**

Jeff Bezos

## Data

The basis for every seamless customer journey is data. Nearly all future prospects make use of manufacturer and dealer touchpoints during their decision-making process. Information about these prospects is stored in liain OEM and dealer systems, and a smooth journey can only exist if dealers and OEMs start collaborating openly. This collaboration needs to encompass systems, processes, and data sharing as well as innovative sales- and aftersales-bonus programs for the new omni-channel customer journey.



**PHILIP JUNGE**

### **Global Director Customer Engagement**

Philip Junge is responsible for creating and managing the global MSXI solution portfolio for customer engagement activities. He joined MSXI with 15 years of customer engagement experience in the automobile industry at both the OEM and dealership levels. In the past, he was a lecturer of marketing at the Munich University of Applied Sciences. He has published several papers in addition to co-founding and formerly being the managing director of VEACT. He can be reached at [pjunge@msxi-euro.com](mailto:pjunge@msxi-euro.com).

## Customer Engagement Pillars



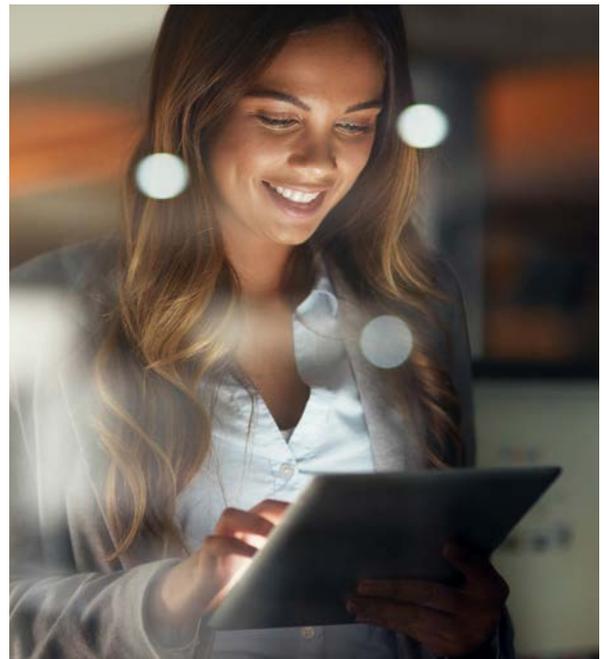
Source: MSXI International

Every touchpoint, whether it's physical or digital, needs to contain as much information as possible about each customer's previous and future journey: buying history, segmentation, satisfaction, personal data, family and friends, etc. Digital movements of anonymous prospects need to be tracked. It is crucial to identify leads, attach names, and enrich profiles as early as possible. Communication needs to be streamlined so that different departments at the OEM and the dealers speak with a unified voice. They need to ensure that customers receive the right message, through the right channel, at the right time and that all involved customer touchpoints at later stages know which messages were sent and received. In order to make this happen, a central customer database needs to be created. This database needs to connect all parts along the value chain, receiving daily data from all relevant sources. A unique customer number that is used in all systems should be in the center of all the components.

### Human Machine Interface (HMI)

In the coming years, the automotive-customer journey will still rely on human customer interaction, be it over the phone, in an online chat, or personally at the dealership. In addition, people from third parties, such as marketing departments, agencies, or call centers, will inevitably interact with this data. In order to increase the quality of interaction processes, it is crucial to move away from classical

passive software interfaces that we know in the traditional CRM world. Replacing them with automated proactive workflows and human machine interfaces that help the involved people do the right thing at the right time is the correct course of action. Some of these interfaces can even be completely automated with new solutions like chat or call bots.

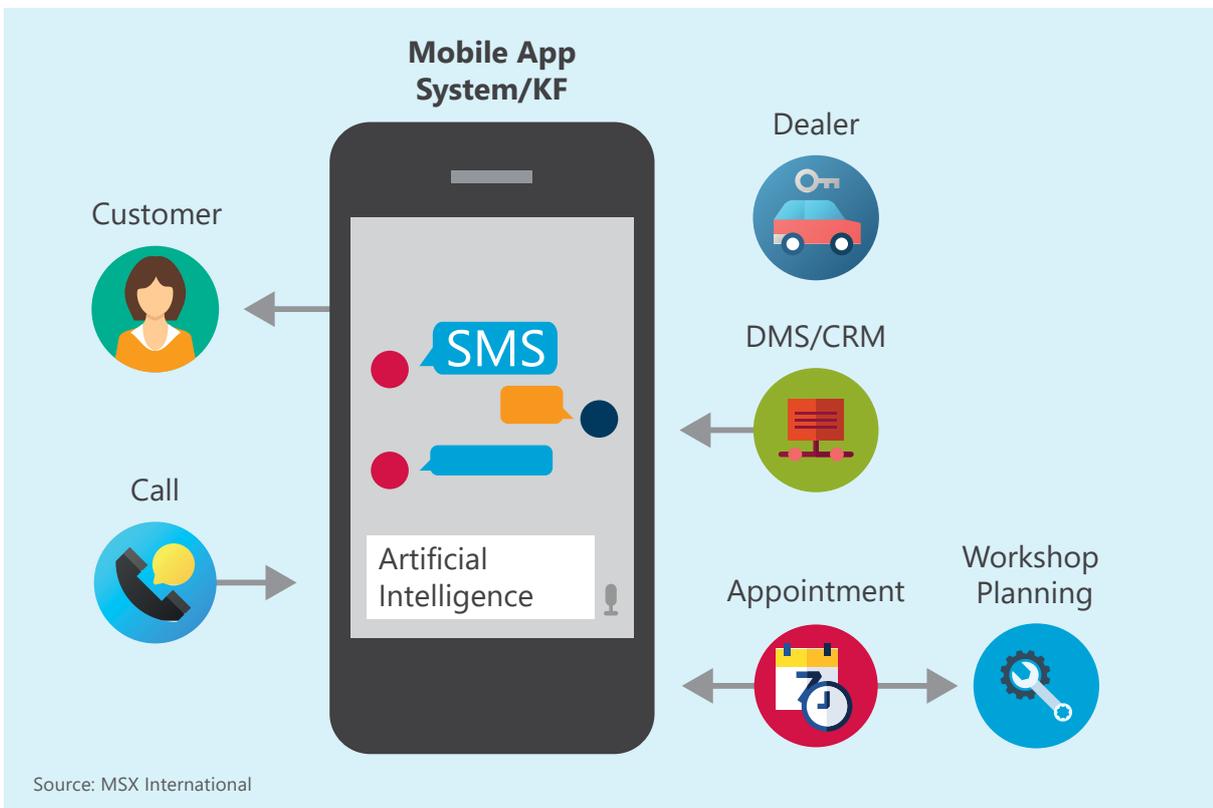




## Transformation

Change will be the only constant for many players in the automotive industry. This is especially true for dealer networks with their processes, systems, workflows, and skillsets. In order to cope with future requirements, few stones should be left unturned. Unfortunately, the industry does not have much time

left to execute these necessary steps. Competition from other markets, new players, and new business models are threatening the position of established OEMs and dealers alike. Many of the required changes will hit stakeholders simultaneously. Therefore, transformation and change management need to go along with systems training and dealer coaching in any successful OEM strategy.





# CHINA AND THE SHIFTING AUTOMOTIVE MARKET

China is no longer one of the biggest auto markets in the world—it is the biggest auto market in the world. Chinese companies will produce around one third of all cars in the world this year while producing half of all electric vehicles, and that proportion will likely remain at those levels through 2025.

**In Beijing**, a driver wishing to purchase a vehicle with an internal-combustion engine must **first enter a lottery** and can wait two years before receiving a license plate.

Source: Mc Kinsey

China is already the largest SUV market as well as luxury automotive market in the world, but it is particularly striving for leadership in electric vehicles. In some Chinese cities, it is already easier to register a newly purchased electric vehicle as opposed to a traditional engine. This has a few reasons, namely the desire to improve air quality, not wanting to rely on foreign oil, and the desire to be the world leader in key future technologies.

## Shifting Domestic Habits

Consumers in China, like in many other countries, are pragmatic and have always been interested in getting the best value for their money. During the early years of Chinese automotive companies, the quality was lacking, and Chinese buyers would opt for American, European, Japanese, or Korean brands, even if they were more expensive. Chinese cars from companies like Guangzhou Automotive, Great Wall Motors, and Geely are no longer unreliable and now offer a value for money that is hard to beat.



**MICHAEL J. DUNNE**

**CEO ZoZo Go**

Michael started his career by immediately moving to China after graduating in 1990 and starting Automotive Resources Asia. His company assisted several OEMs and global parts suppliers entering various Asian markets. After ARA was acquired by JD Powers, Michael was tasked with leading the Chinese operations. He later founded Car Keys Asia and later worked for General Motors before starting ZoZo Go in 2015. ZoZo Go advises companies on future trends regarding mobility, electric vehicles, and autonomous vehicles in China. His website can be found at [www.zozogo.com](http://www.zozogo.com)

Even just 20 years ago, around 95% of cars in China were global brands like Honda, VW, and Ford. That has changed. Today, around 40% of cars on the road are from Chinese brands, meaning fewer sales from foreign brands. Global manufacturers of mass-market

vehicles in particular are feeling the pressure as more Chinese consumers opt to buy local brands that are both affordable and reliable. If global brands are to remain relevant and not get completely pushed out, they are going to need to offer more value at agreeable prices.

Up until now, Chinese OEMs have been growing quickly and profits have been good. These domestic brands have been content to stay domestic where the growth was still good, but Chinese brands and China itself now have even higher aspirations.

### Enter China to the International Stage

The biggest change the automotive industry can expect regarding China likely won't happen within China's borders, but outside of it.

## Three giant Chinese state enterprises are expected to merge soon, creating one of the world's largest automakers.

Source: ZoZo Go

"Made in China 2025" is poised to change China and the rest of the world. The ambitious plan from the Chinese government aims to increase domestic production and exports, akin to Germany's impressive export market. China aims to no longer be a follower of trends and technology but a leader. In addition, with slowing domestic sales growth, companies are aiming to export more goods to the international market to capture foreign growth.

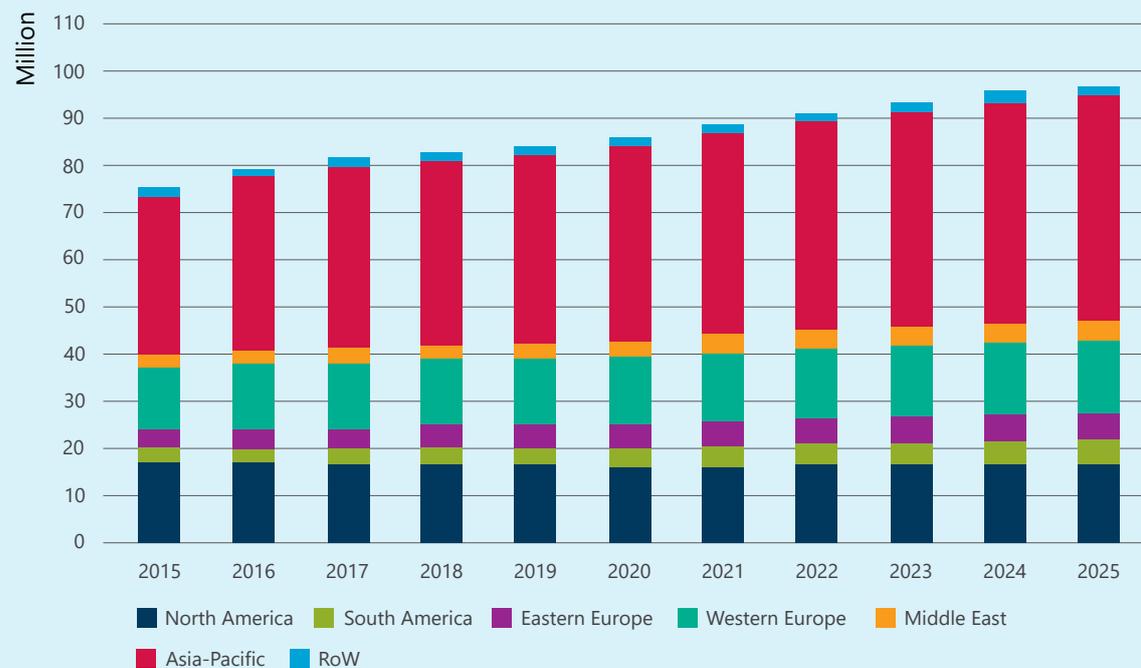


Several Chinese automotive manufacturers have already stated their intentions to start selling vehicles within the American and European markets by 2020, introducing a new dimension to automobile sales both within China and abroad. The markets will need to be ready for the increased competition.

### The East Rises Again

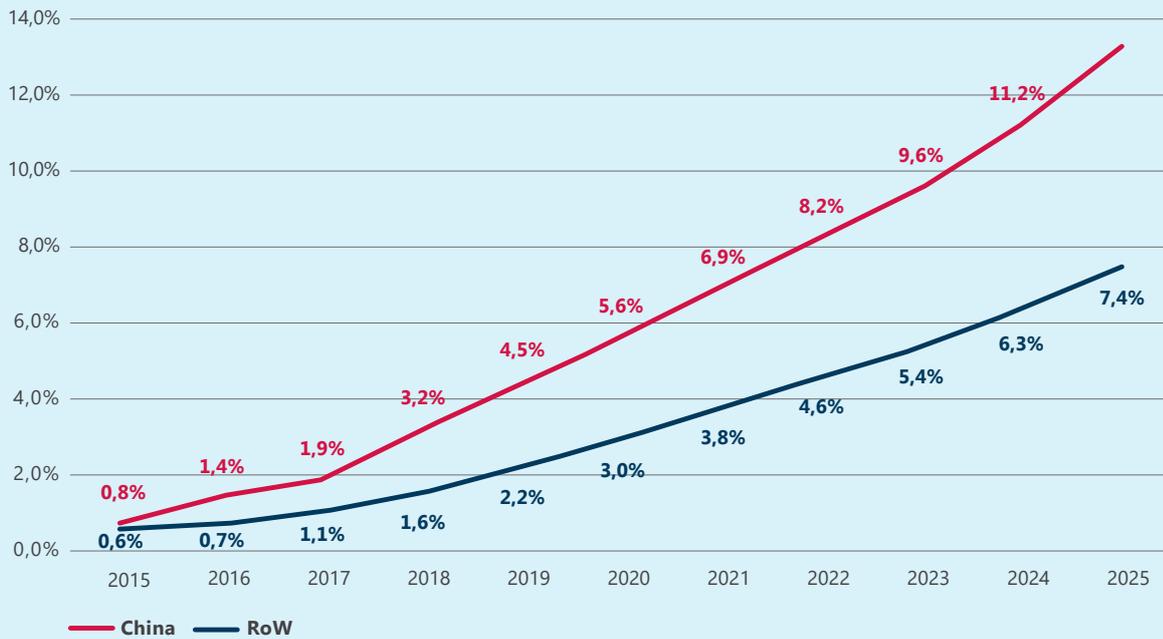
Automobile companies are not the only rising industry in China. Medicine, financial service, and tech companies, among others, are all on the rise. The tech industry in particular will play a strong role in the future of automobiles due to their superior customer data, guiding their efforts. As cars continue shifting from mechanical devices to computers on wheels, the tech industry will play an even larger role, posing a threat to established OEMs. Tech companies

### Passenger Vehicle Sales Forecast



Source: MSXI Research

## Electric Vehicle Sales out of Total Passenger Vehicle Sales



Source: MSXI Research

worldwide are investing in self-driving cars and electric vehicles, and China is no exception. Alibaba is working with Ford to release car vending machines where people can walk to a building, test a car, and drive off with it. NIO, China's answer to Tesla, is selling directly to customers and building up a community. Geely only sells connected cars and has introduced a car sharing service called CaoCao as well as forming a joint venture with Daimler to offer premium car sharing services. These tech companies have a strong advantage in information as well as delivery methods, and manufacturers will need to close that gap or cooperate with them.

New distribution methods are easily adopted in China. As the car industry is relatively young and the country has wholly embraced modern technology, the general populace is open to newer ideas as opposed to the established dealership mindset that other countries

hold. This leads to a very evolving and dynamic market where online purchases, vending machine-like solutions, and other methods that wouldn't be embraced as quickly in other countries can be tested.

As the most populated country in the world, China also has the scale to expand and test new ideas. Chinese companies are more adept at quickly commercializing newer technologies than the sluggish behemoths in other established markets, leading to rapid and large gains that western investors could only dream of. The Chinese market is new, adaptable, and receptive to innovative ideas. Foreign companies that want to continue operating in China will need to recognize how differently things work in China and act accordingly, just as Chinese firms are going to be adapting their strategies for other markets. Customers, dealers, and manufacturers should expect a large wave of quality Chinese cars entering markets everywhere in the coming years.

Made in Germany was a label that was originally stamped on German goods that were sent to the United Kingdom. There was concern over inferior German goods, but that label has been turned around and is now a seal of honor and quality.

China used to be, and still often is, associated with cheaper, low quality products, but that is changing. The world can soon expect a flurry of Chinese automotive companies entering previously untouched markets with quality cars that will compete with even the most premium automotive brands. It will be more vital than ever for established OEMs to adopt agile methods of integrating newer technologies in order to stay ahead of the awakening dragon.



## Contact Email

[benchmarker@msxi.com](mailto:benchmarker@msxi.com)



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## Editorial Team

Pieter van Rosmalen & colleagues  
[pvanrosmalen@msxi-euro.com](mailto:pvanrosmalen@msxi-euro.com)

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