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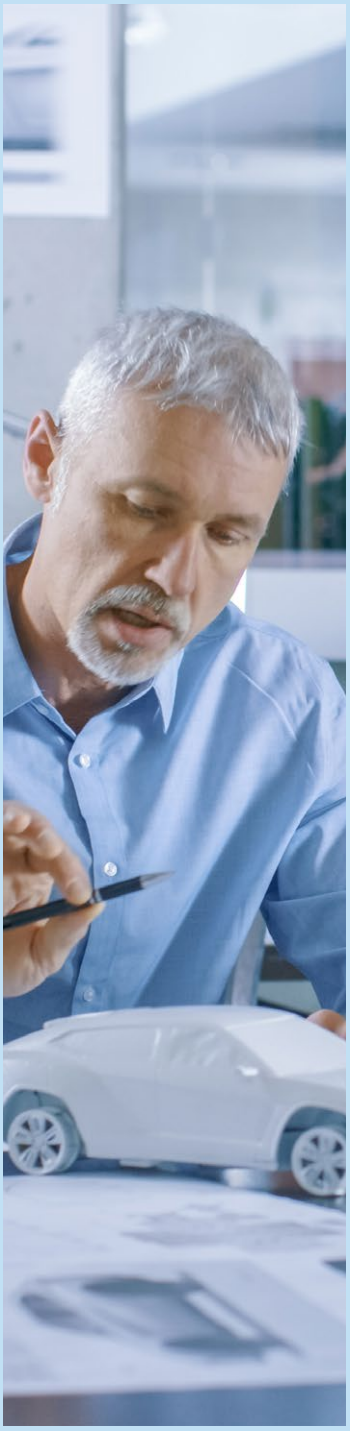

BEYOND MANUFACTURING: WHAT'S NEXT FOR AUTOMOTIVE OEMS?

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Developing Direct Consumer Relationships

Buying a car is a high involvement decision, with lots of research and recommendation-seeking involved. The car buyers of today are tech-savvy people who scour digital information sources to evaluate their options. However, they invariably execute the transaction through a physical dealership. Buying cars online without visiting a showroom is not an established behavior yet.

However, a few auto Original Equipment Manufacturers (OEMs) are exploring D2C sales, that is, selling their cars directly to consumers.

- Tesla already has all its models available on its website globally.
- Volvo Cars, the Swedish luxury car maker, has plans of selling all its hybrid vehicles via the online channel by 2025 and extending the new business model to cover pure electric vehicles by 2030.
- Volkswagen has adopted an online sales model for the global launch of its cars under the all-electric ID family.
- Mercedes-Benz recently announced its new strategy for the Indian market – to go 100% online by the end of 2021.

In the D2C model, the consumer visits the OEM's website and either shortlists or selects a car after which the entire transaction is taken care of online, with dealers facilitating delivery of the car along with pre-ordered accessories. In this evolved value chain, the role of the dealer is limited to enabling the sales process and attending to after-sale services.

The D2C option allows OEMs to directly connect with consumers to:

- Understand their preferences and make design, pricing, and future launch decisions accordingly
- Offer a uniform price across locations within a geography

Consumers are warming up to the convenience of buying cars directly from OEMs, and are perceiving its advantages, including:

- Enjoying a seamless virtual buying experience from the comfort of their homes
- Evaluating various car brands and models online, at their own pace, without visiting the dealers' showrooms
- Learning from the candid feedback of other car owners posted on various online channels
- Saving time and effort spent in the offline buying process

The pandemic has also driven buyers towards online sales channels.

For the D2C model to evolve further, these initial experiments need to be strengthened into an established norm. This requires OEMs to progress the car buying journey towards maturity in the areas of process, data, logistics infrastructure, and governance. A lot of this will translate into back-end readiness for the OEM, thereby enabling a better front-end experience for the customer during the car evaluation and buying process.

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Dimension	Capabilities Required	Research	Onboarding	Usage	Return/ Renewal
Process	**Define detailed processes for:** • Direct online sale of end-to-end bundled product including the vehicle, accessories, and financial and insurance services • Interacting with dealerships for management of after sale service for consumer		✓	✓	✓
Data	**Manage various databases** • Product portfolio including various models and their features • Consumer data like background, interests, preferences • List of spare parts and after sale services • Pricing data, etc. • Maintenance of a seamless flow of information between the OEM, end consumer and third-party service providers like dealers	✓	✓	✓	✓
Infrastructure	**Identify and develop IT and system capabilities required for a seamless customer journey during an online sale process** • User-friendly UI providing visibility of various models, availability, pricing, lead time to deliver, etc. • Easy-to-use tools for consumers to compare between various options • Use of bots to provide a uniform consumer experience across all consumer interactions • Robust customer care network to support the buying process and after sale service • Robust ERP systems for efficient inventory management in the absence of a dealership model	✓	✓	✓	✓

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Beyond Online Car Selection and Purchase: Pay and Use over Buy and Use Further Fueling OEM-Consumer Connect

While consumers have shown an inclination towards buying cars directly from OEMs online, they are also evaluating a 'pay and use', or 'car subscription' option under the Mobility Services umbrella. Key reasons for the rise in car subscriptions among consumers globally are:

- Mobile, young consumers who don't want to be tied down by physical assets
- Depreciation in car value
- Flexibility of subscription services, enabling consumers to drive a variety of cars

Seeing the trend, many car manufacturers, such as Volvo, Mercedes-Benz, BMW, GM, Porsche, and Ford, have started offering subscription services. Also, lately, we have witnessed third-party start-ups venturing into this business, offering subscriptions mostly for used or specialty vehicles. Market experts predict that the size of the global 'Mobility as a Service' market will grow from USD 4.7 billion in 2020 to USS 70.4 billion by 2030, at a CAGR of 31%[1].

In times to come, a greater number of OEMs will start offering subscription services, which will further encourage the OEM-consumer connect. To be able to build acceptance among the target consumer base, OEMs need to make their car subscription models efficient and agile..

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Subscription Model	Details
Fixed	• Timeline for the contract is fixed at the beginning and cannot be changed. • Car model/variant selected at the start of contract continues for the entire duration. • Relatively lower price point.
Flexible	• Timeline for the contract can be increased or shortened based on consumer requirements. • End-user has the option of swapping the existing car model/variant with a new one. • Relatively higher price point.

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As business models and consumer preferences change, to stay relevant in the evolving industry landscape, auto OEMs will have to think not only like manufacturing companies focused on design, innovation, manufacturing, supply chain efficiency, delivery logistics agility, and spare parts management but also like consumer companies.

In the days to come, the industry may start referring to current OEMs as OEPs (Original Equipment Providers).

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1. *Mobility as a Service Market by Service (Ride-Hailing, Car Sharing, Micro Mobility, Bus Sharing, Train), Solution, Application, Transportation, Vehicle, Operating System, Business Model, Propulsion & Region - Forecast to 2030, MarketsandMarkets Research*

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