NEXT GENERATION AUTO RETAIL: DEALERSHIPS IN 2030

UXUS LG Business Solutions MOOD:MEDIA

The automotive dealership is poised to be drastically reformed in part because it has proven so resistant to change. The franchise dealership model evolved to answer the needs of the nascent and growing car industry but has been kept from continuing its evolution by a mix of industry standards, agreements between dealers and manufacturers, and laws that were intended to protect dealers and foster competition. We've now reached a tipping point that means we are likely to see a lot of change happening very quickly in the next decade.

> "If you could travel forwards 10 years and look at a shopping mall or a busy high and you see an automotive retail space, it will look like a multi-functional space."

- Seamus Walsh, Enterprise Sales Manager Automotive, LG Business Solutions

Why are dealerships changing?

There are reasons that the dealership system evolved the way it did, and it served the industry quite well for a time. If you look at the experience of buying a car today, however, it's actually quite shocking. It's a competitive industry, with huge price points and a complex supply chain. The stakes for each company expanding their sales and winning over customers couldn't be higher.

The car-buying process, however, is set up in a way that many customers find deeply unpleasant. One report[1] found that 33% of Americans would go to the DMV, sit in an airplane's middle seat or file their (incredibly complicated American) taxes rather than buy a new car. Another[2] found that 65% think car dealership practices are unethical while yet another[3] found that selling cars is considered to be the least honest and ethical profession, below politicians, advertisers and lawyers.

Impact on customers

A car is the most expensive thing that most people buy, except perhaps a home.

Think about what those statistics say. Most high-priced goods have a sales experience that feels like pampering, but customers find car-buying painful. This is an opportunity for brands to connect with customers, creating loyalty for their next purchase and improving their reputation by turning their customers into brand ambassadors. In a crowded field with slim differentiators, this is quite possibly their biggest chance to influence the customer journey.

Instead, the system has evolved in a way that feels adversarial to many customers. They can go to an Apple store and try out every product with or without a helpful attendant to figure out the right product for them. Even farther down the price scale, they can spend ages trying Lush products and hear only useful advice and friendly conversation from the salespeople, regardless of whether or not they buy anything[4]. The car-obsessive site Jalopnik recently reported[5] on dealerships refusing to give prospective customers their own car keys back when they couldn't agree on a trade-in deal. The comments below the article were flooded with similar stories.

[1] https://www.autoblog.com/2014/06/03/americans-hate-car-shopping-so-rather-give-up-sex-do-taxes/

[2] https://www.totaldealercompliance.com/Code%20of%20Ethics%20Press%20Release%20-%20TDC%20-%20Final.pdf

[3] https://news.gallup.com/poll/274673/nurses-continue-rate-highest-honesty-ethics.aspx

[4] https://econsultancy.com/how-lush-is-raising-the-bar-for-in-store-experience/

[5] https://jalopnik.com/apparently-some-car-dealers-think-its-ok-to-detain-cust-1846238476

Impact on dealerships

Unsurprisingly, this model is also really difficult for dealers. It takes a heavy toll on hard-working ethical salespeople to be constantly associated with the worst members of their profession. The high-pressure sales pitch that consumers so dislike is a natural result of tying the KPIs of franchise dealerships and individual salespeople entirely to sales. Like many other professions, their business model was born in response to a need and has ramped up in intensity as margins became slimmer.

What is surprising, however, is that the model isn't even that profitable anymore. The National Automotive Dealers Association reports[6] that new vehicle sales don't make money for dealers. They rely on manufacturer incentives, service and parts to drive revenues. Meanwhile, the surging price of land[7] makes dealerships' sprawling lots and large showrooms more expensive, even as customer demand changes to make them less necessary. As NADA chairman Rhett Ricart noted, "Customers really don't care how big your showroom is[8]."

"The future of dealerships is rapidly changing. They're not really bringing in and attracting the customer into their environments today, when so much of it can be well-presented online. How does the dealer network retain that customer interest and bring their customers into the physical location?" - Jonathan Wharrad, VP Global Brands – Technomedia, Mood Media

Changing market demands

Changing customer demand is leading to a tipping point. Several consumer trends are coming together to drive substantive change. While Generation Z is getting a lot of the credit, values-driven purchasing has been growing for years. A couple of years ago, Forrester found that 7 in 10 millennials actively consider company values when making a purchase[9]. This focus on values and the idea of consumption as expression have made relationships with brands even more important. The theory that a good product can overcome a bad customer experience is fast becoming a thing of the past.

Another major influence is the growing acceptance of mobility as a service (MaaS), as well as subscriptions in general. Millennials and Gen Z are more experience-oriented than purchase-oriented[10], so this fits well within the worldview of the largest mass of consumers. MaaS companies, which offer convenient transportation without the inconveniences of daily parking and car maintenance, are shifting relationships to transportation. As we discussed in our previous white paper[11], younger consumers across Europe, the US and most of Asia are so tuned into alternative mobility that some are questioning individual car ownership. Consumers and urban planners alike are looking to a future in which fewer cars drive more miles through shared usage.

[6] https://www.forbes.com/sites/larrylight/2019/04/10/why-avis-and-enterprise-are-beating-car-dealerships-to-the-future/

[7] https://www.ft.com/content/2606dd0d-d009-4fc6-8801-2a089d76bdc5

[8] https://www.autonews.com/dealers/dealers-seek-flexibility-facilities-pandemic-alters-consumer-behavior

[9] https://www.forbes.com/sites/forrester/2018/05/23/millennials-call-for-values-driven-companies-but-theyre-not-the-only-ones-interested/

[10] https://www.mckinsey.com/industries/consumer-packaged-goods/our-insights/true-gen-generation-z-and-its-implications-for-companies

[11] https://uxus.com/volumes/uploads/2021-Automotive-Dealerships_UXUS-White-Paper-Part-2-1.pdf

The final thread is online buying. Even before the pandemic, customers were becoming more open to buying a car online. A 2018 report[12] found that 31% of UK consumers were interested in purchasing a vehicle online without a dealership visit. In our previous webinar[13], Zerolight CEO Darren Jobling told us that at the digital-oriented Audi City dealership, 50% of car purchasers never took a test drive. 2020's universal crash course in online shopping has only accelerated this willingness. A Capgemini survey found that the percentage of car buyers who'd prefer to do the entire transaction online went from 39% before the pandemic to 64% by April of 2020[14].

And that's without even taking into account women and racial minorities, who have traditionally faced specific challenges in their buying process. For example, the thriving independent online dealership SheCar was founded in response to women feeling that they were more likely to be targeted by bait-and-switch or high-pressure sales tactics. Their model of serving as an online consultant has been so successful that it's exceeding its target group. Their Forbes profile[15] included a quote from an older white male surgeon, who would traditionally be a prized dealership client. "I strongly dislike going to car dealerships. Time is money, and I'm sure a lot of busy people feel the same way."

> "I've been in the industry for 30 years and I think the next 10 years are going to be the most dynamic we've ever seen." – Martin Sewell, Managing Director, Rockar

[12] https://www.statista.com/topics/5284/car-purchasing-experience-in-europe/

[13] https://www.gotostage.com/channel/6845ee7584f446588dcf0ec4717ad97d/recording/4fe872deccad44b8be66bf817f005db9/watch

[14] https://www.forbes.com/sites/edgarsten/2020/05/12/coronavirus-pushes-auto-dealers-to-remove-pain-points/?sh=6201378319b6

[15] https://www.forbes.com/sites/reneemorad/2018/12/20/the-woman-owned-online-car-dealership-thats-saving-customers-thousands/

[16] https://www.automotiveworld.com/news-releases/success-rockar-hyundai-bluewater-leads-new-site-westfield-london/

[17] https://www.pwc.nl/en/publicaties/five-trends-transforming-the-automotive-industry.html

Industry developments

Changes in the market are also drastically accelerating this tipping point. Challenger companies and spinoffs from major players are seizing the opportunity to build their sales systems from the ground up. Many of these are entrants in the booming electric vehicle (EV) market, which will only grow as cities and countries across Europe phase out combustion-engine cars. These challengers have the advantage of designing the entire thing from scratch for today's customer, rather than trying to adapt an early-20th-century legacy system to the modern consumer.

These challengers are reimagining the dealership as a brand experience. Tesla may have been an early example of an OEM (original equipment manufacturer) that sells directly to the consumer, but plenty of others are following suit. Lucid, an aggressive Tesla competitor, makes the point on their website that they own and staff their sales locations. These brands are trying to take ownership of the dealership experience by staffing them with their own product experts.

"Nothing's going to change if you keep digitizing 100-year-old processes." - Martin Sewell, Managing Director, Rockar

Rockar represents another model for upending car sales. The digital retailer partners with automotive brands to create a user-oriented sales or leasing experience. Though the model varies per client, with some largely online and others having some form of physical footprint, the uniting factor is educating customers about the vehicle in a relaxed way, rather than pressuring them to buy. Rockar calls its product experts Angels and expects them to provide honest facts and figures. And the approach works. When they ran a retail space for Hyundai, they found that 94% of their customers were entirely new to the brand[16].

“All people – not just millennials – when they identify with a brand, that’s what builds loyalty and connection. Supporting that is what people should do with their physical spaces.”

– David Green of Lynk & Co

Lynk & Co, represents another model, one aimed squarely at millennial and Gen Z consumers. This membership-based system offers usage as needed. There’s a higher level that gives you a specific car while a lower level functions as what the CDO calls an “Airbnb for cars.” Key to their model is the community of members. They want people to interact a lot with their brand, and their physical space is key to that community.

Lynk & Co’s footprints are referred to as Clubs and are designed to be a place to go and spend time. They carefully inculcate a nightclub or wine bar feel and the space takes on different functions. It can be a café, car showroom and lounge. The key to their success is using digital signage as a building material, allowing it to transition between functions quickly and easily.

This mobility as a service (MaaS) is growing quickly across the continent. Part of it is driven by the environmental impact of cars, as both countries and densely populated cities are looking to reduce traffic and air pollution. A more European factor driving this change is the abundance of narrow medieval (or earlier!) city centers that are ill-equipped for modern traffic. In fact, just down the road from Lynk & Co's Amsterdam home, a canal wall collapsed from the weight of modern traffic. MaaS solutions are so obviously the solution to these issues that PriceWaterhouseCooper forecasts that by 2030, more than one in three kilometers driven in Europe will be through some form of vehicle share[17].

The linking thread of all of these concepts is that the car the customer accesses isn't physically onsite. The car can move directly from the factory to the customer's house, or it can move from a central site to the customer. Customers can explore the brand and customize their options without seeing the physical car that they'll be using. Moreover, they appear happy to do so.

"I find the multi-brand location very intriguing, being someone who enjoys shopping. It plays into a natural proclivity for consumers to browse and spontaneously buy and could become more common in the future."

– George Gottl, CCO, UXUS

What will dealerships look like in 2030?

So, what does this mean for dealerships in 2030? It's likely that the overall number of dealerships will go down. Traditional franchisee dealers could relaunch as a multi-brand dealership. However, only a small number are likely to do that.

Others will move towards leasing companies, partnering with lenders. One example of this is Macquarie's MotoMe project. One of Australia's biggest banks and car finance companies launched a retail space in a shopping center. The brand-neutral set-up allows customers to explore all of their options and work out a leasing agreement with representatives right there. The bank, not the consumer or a middleman, takes ownership of the relationship with the OEM.

The remaining dealers will get closer to the OEMs as the brands take more creative control. Branded dealerships will move away from being solely sales-oriented spaces into branded multipurpose spaces. Branded dealerships will become places where people go to live the brand, not where they go when they've already made the bulk of their purchasing decision. The dealership of 2030 will, in fact, not be a dealership but a mobility brand hub.

Mobility brand hubs

Mobility brand hubs will vary by brand, but they'll be places that customers actively go to.

Retail spaces in malls and other high-traffic areas are one option. The previously discussed Audi City concept has the highest revenue per square meter of any Audi store, as well as the highest revenue per staff member with its consultant idea. Membership clubhouses like Lynk & Co are another, where people can get close to the brand instead of the product. A third option revolves around the growing EV infrastructure.

Gridserve, a British company launching fully electric charging forecourts, and other energy companies, including oil companies, have announced similar plans. Because charging takes time, these stations will need to have amenities like retail, post offices or shared workspaces like WeWork. It's an opportunity for EV dealers to build multi-brand showrooms and EV OEMs to build brand experiences.

Digital transformation

The spaces themselves are undergoing a digital transformation that will only accelerate. For established dealerships, digital is a great way to transform existing spaces. Changing space usage and appearance is as simple as changing content. A space can go from showroom to workshop space to wine bar with the push of a button. The showroom can include touchscreen AR solutions to let any customer at any time configure the car of their dreams while the clubhouse vibe makes them more likely to walk in the door.

"We are moving away from the acquisition of a vehicle to the appreciation of an experience."

– Jonathan Wharrad, VP Global Brands Technomedia, Mood Media

Conclusion

The future will belong to dealerships and brands that seize the chance to make a truly consumer-oriented space.

Dealerships are undergoing a sea change. The automotive industry is moving towards a model of customer-oriented spaces, whether for shared usage or privately owned EVs. The dealerships of 2030 will be brand mobility hubs with a transformation effected through digital technology.

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UXUS is a global strategic design consultancy that re-imagines consumer experiences for the 21st century. We harness the power of retail, hospitality and experience to transform the world's leading brands – from creating the ultimate peer-to-peer education hub for Sephora to the new dining experiences for McDonald's. UXUS is proud to be recognized by the industry for its creative excellence. Our award-winning team recently won the Best retail Experience at the World Retail Congress for the L'Occitane flagship on Regent Street.

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