



Flash Insight: Online Vehicle Sales

How the Coronavirus Crisis is
Accelerating Digital Change
in European New Vehicle
Sales and Delivery

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1. Digital Vehicle Sales Overview

Although there have been many advances in digital marketing and tools to engage and sell new vehicles to customers, purchasing a new car hasn't fundamentally changed much over the past century, and certainly not across Europe. The dealer franchise model, with few exceptions, is both the primary and in some cases the only legal way that new vehicles are sold or leased to customers. Dealers remain the central point for transactions, final delivery and handover.

However, customer expectations have changed dramatically. The Amazon 'one-click' consumer experience is increasingly the norm for many shoppers. The Covid-19 crisis has accelerated that expectation into a necessity for many products. That was also the case for the automotive sector, where the closure of vehicle dealerships in key markets and regions left no sales channels open except for online ones. It also led to fast adjustments to 'contactless delivery' methods that involve collecting or delivering vehicles with as little human interaction as possible and using strict sanitary measures.

In China, this digital switch appears to have driven part of the market's early recovery. Vehicle sales fell around 80% in February with most dealerships closed; in March, the sales decline was around 50% even though many regions had yet to lift lockdown restrictions. Those purchases could be attributed at least partly to rising digital sales, as dealers and customers turned to WeChat and other platforms to arrange delivery of disinfected vehicles for test drives, home deliveries and maintenance service. Where possible, credit and purchases were also made remotely.

In the US, where not all states required dealerships to close, many nonetheless turned to digital means and adapted contactless and remote delivery options, whether home delivery or arranging vehicle pickups in empty retail parking lots.

In Europe, feedback from OEMs so far suggests that the volume of online transactions and alternative deliveries also increased, although it has remained fairly low. In markets where dealerships were closed, such as the UK, some dealers were able to complete sales or leases remotely, for example for select 'key worker' categories, including frontline staff and services, with the government later also allowing 'click and collect' options. Other markets took steps to deliver to more customers in similar ways. In these cases, vehicles might be delivered from stock vehicles that had already undergone pre-delivery inspection, and then transported by carriers or individual drivers.

2. A clear digital opportunity

However, although the actual numbers have been low, carmakers and retailers in Europe have seen the crisis as an opportunity to accelerate digital tools and processes in vehicle sales. Even with dealerships reopened, the ongoing requirement for social distancing, PPE and other measures to protect customers and staff have made online sales processes and transactions much more attractive. These processes are also influencing logistics, with options such as click and collect, contactless and alternative delivery locations set to continue.

Across the global market, we expect online new vehicle sales to more than treble in the next five years, led by China, where carmakers are already extending these services. In February, in the midst of lockdown in many parts of the country, Chinese OEM Geely, which owns Volvo Cars, introduced a fully digital purchase process, with contactless vehicle delivery options to home or work, and options for keys to be delivered by drone in select locations.

Will this growth reshape vehicle logistics networks and processes in Europe? There is significant potential, including the opportunity to deliver directly from vehicle compounds to chosen customer locations, as well as to integrate factory order and delivery processes more directly with end customers. In the longer term, more fully autonomous factories and deliveries could be total game changers.

For now, however, the overall market share of online sales is still in the single digits. What's more, online sales and deliveries do not necessarily mean direct sales that bypass franchise dealers. In most trials before lockdown, these orders were usually allocated to local or chosen dealerships for final transactions or processes. And since the lockdown, patterns suggest that many dealers are adapting, with support from OEMs, to use more digital tools and processes. As they succeed in being the main digital sales providers for vehicles, dealers will also likely continue to be central to final delivery, either as the collection point, or in arranging handover.

Nonetheless, digital transformation of the vehicle sales process is likely to bring changes and opportunities in the outbound supply chain, whether in more centralised storage points, new delivery patterns, or in the software and services required to process orders, carry out inspection, arrange registration and handover.

3. Slow steps to digitalise automotive retail

The automotive sector has been behind the curve in digital retailing in comparison with other sectors, however ecommerce has influenced delivery and logistics methods in key areas. The aftermarket, for example, has many online channels with frequent multi-daily delivery to independent retailers or even direct to customers. Amazon itself, for example, sells and distributes aftermarket parts.

Used car sales and remarketing, meanwhile, have been highly digitalised, including online auctions, direct selling and digital online supermarkets. Companies such as Mannheim, Auto-1 Group and BCA have networks of vehicle compounds in Europe which also serve online auctions and customers. Other online 'car supermarket' sites, such as Cazoo or BuyACar, also include online purchase and delivery options for used and some new cars.

Pre-Covid, there had been tentative steps to digitalise more of the new vehicle purchase process, notably in online research and marketing. Some carmakers, including premium OEMs as well as mass brands like FCA and Nissan, have also offered online portals to configure vehicles.

In recent years, many brands in Europe had been running pilot programmes for various steps of online sales processes, including Volvo Cars, Daimler, Toyota, BMW Mini, PSA, Renault and Nissan, although volumes had collectively been very small. And a few brands, notably Tesla and Chinese startups like Nio and Lynk & Co, have sought to build direct-to-consumer sales models from the beginning, with plans to sell in Europe this way as well.

Shared mobility and ownership models have also moved aspects of vehicle purchasing more online. Car sharing services are managed through apps of course, while some OEMs have also trialled vehicle subscription that bundle vehicle exchanges, maintenance and insurance through online services. However, much of these areas remain niche and have had little impact on the overall vehicle logistics sector, except for aspects of fleet deliveries.

4. Dealers remain at the heart

Up to now, most online experiences of buying or leasing a new car almost always revert 'offline' to dealers for key stages of completion, especially when it comes to arranging finance, signing documents and collecting the vehicle for final handover.

That is the case in large part because of highly fragmented systems and sales processes. There are also limits in many cases to making larger financial transaction and credit arrangements remotely. Breaking down the customer journey reveals five stages: product awareness, research and consideration, purchase, fulfilment, and finally service support and aftercare.

Currently, car brands and retailers use a jumble of systems and software for online sales and marketing. Although carmakers are making efforts to set more standards, in most cases online systems are implemented at the individual dealer group or retailer level, rather than by the OEM. Carmakers' online configurators don't always connect to local dealer systems, for example, and must be replicated.

Part of the challenge is the sheer complexity of vehicle purchasing. In many cases, customers are not as ready to click to buy a vehicle just on the basis of reading online information, whether it is specifications, photos or videos on a conventional retail website. There is also the variety of models and powertrains, as well as the bewildering number of optional extras, model customisation and personalisation.

While there are advanced online features to handle many aspects of this process, they do not always appeal to all consumers, and may especially put off older, less tech-savvy customers. Volvo Cars, which has trialled an extensive digital ordering process in key markets, has found its online sales demographic to be much younger than average buyers, for example.

To that end, the human element plays a significant role, including explaining features, arranging possible trade-in of used cars, helping to understand finance and leasing options – and negotiating on price. OEMs and dealers must strike a balance between making the consumer experience compelling and versatile but at the same time simple and undaunting.

The degree to which carmakers and dealers adapt this process will vary – and that variation will influence vehicle distribution and logistics processes.

5. Stages of digital vehicle retailing

5.1 Basic digitalisation: Online research and completion at dealership

Before Covid-19, the early stages of the customer journey had already moved online, with shoppers making fewer visits to dealerships before purchase. This would include reviewing OEM, dealer or aggregator websites, and perhaps arranging a test drive online.

But in almost all cases, the remaining stages, including the purchase, delivery and service support have still been conducted at dealerships, with no real impact on current vehicle fulfilment and logistics patterns.

5.2 Intermediate digitalisation: Virtual tours and video calling

More developed digital retail processes combine online platforms that also allow for more direct customer interaction and engagement, with a halfway house between digital tools and manual processing of sales and delivery. While niche even just a few months ago, this process has become more prevalent during lockdowns and in the age of social distancing.

In these cases, old fashioned sales support still supplements the final stages and details of the transaction and sales process, albeit through very modern video conferencing apps like Zoom, FaceTime or WhatsApp. During the lockdown, this was particularly the case in China with salespeople using WeChat to finalise sales. In Europe, dealers have also begun to offer video appointments and carry out virtual demonstrations for vehicles.

Through this process, the final purchase can also take place through the dealer remotely, including negotiations, which remain a unique but critical aspect in many vehicle transactions. Customers can also arrange finance and payments, although in some countries the legal framework can make such transactions problematic.

Contactless delivery arrangement can also be arranged. In most cases, this is likely to be via dealers or direct from regional compounds, whether through carriers or individual drivers.

5.3 Advanced digitalisation: Fully virtual showroom

In the most developed, and still rarest, vehicle buying experiences, platforms allow for online processes that covers the entire customer journey. These more interactive 'virtual showrooms' include elements of augmented and virtual reality. For example, PSA has introduced a virtual showroom where customers can book live 'walk around' tours and interact with brand specialists and product presenters. Vehicles are displayed in specially designed viewing area akin to TV studios with top-quality HD cameras.

Customers can also use such platforms to directly manage financing and completion, and to arrange delivery, including via remote handover, contactless delivery or collection at dealers.

6. Barriers to entry

However, there are challenges to such digital tools and platforms. While virtual showrooms can emulate the human interaction necessary for the complicated process of purchasing a vehicle, they cannot reproduce many of the tactile and emotional experiences common in purchasing a car, whether the touch of a door handle, the smell of leather, the sound of the engine.

Some dealers may also struggle to compete, or frankly overspend, on the type of digital content that may be required to stand out, whether livestreams on social media or broadcast quality shows and presentations.

Conventional digital retail platforms often have limits on the value of digital payments they can process. Many dealerships lack the capabilities to facilitate a fully digital transaction in a contactless manner for the large sums required. And from the consumer perspective, there is also the trust element: many may be concerned about the security of sending large sums of money or arranging credit via an online system to which they are not accustomed. In some countries or states, there are legal barriers to such remote transactions.

Alternative systems are needed to build trust with consumers and to facilitate large payments or the signing of finance documentation. Before the crisis, for example, Volkswagen Group of America had piloted a system at ten dealerships called 'Sign Anywhere', a remote digital signature tool to allow the secure signing of finance documents on the customer's computer or mobile device. In the wake of Covid, VW has accelerated the rollout across its US dealerships in states where it complies with remote transaction laws.

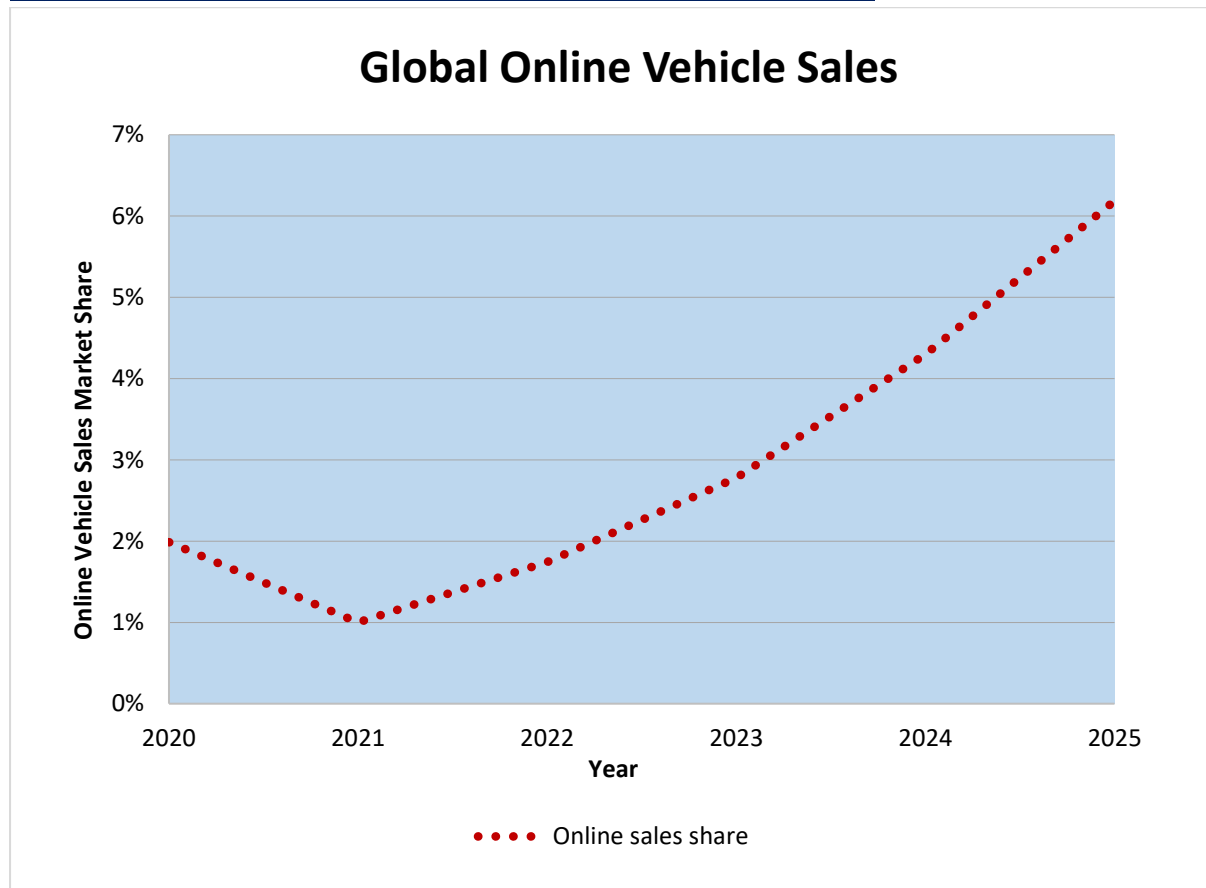
7. Global new vehicle digital sales forecast

The sudden and necessary pivot to online sales is likely to lead to a permanent shift even after the Covid crisis has abated, as such services better match customer expectations and requirements. However, they will represent relatively small numbers.

Our forecast is that online new vehicle sales – defined as those transactions that include partial or full payment online – will reach nearly 2% of global sales in 2020 as a result of the Covid crisis, although this likely underestimates the total influence of digital processes, including arranging contactless delivery. In 2021, as the crisis is expected to recede, we expect to see this share subside back to lower levels, but then accelerate as customers gain more trust and interest in online platforms. We expect global online vehicle sales to reach a penetration rate of around 6% by 2025.

We expect Europe to be roughly in line with the global average for this penetration, while China will be the leading region in the uptake of online vehicle sales.

Figure 1 Global Online Vehicle Sales Forecast 2020-2025



Source: Automotive from Ultima Media

8. Benefits and changes to finished vehicle logistics

A permanent shift to online vehicle sales of more than 5% would likely also influence vehicle and logistics flows. In the majority of cases in Europe, we still expect sales to occur through dealerships, and so the overall regional structure of vehicle distribution might not shift dramatically. However, there could be changes for regional stock and last mile delivery that impact on equipment utilisation, along with ancillary services.

If fewer finished vehicles need to be transported to dealerships, more last mile deliveries are likely to be made from local or regional distribution hubs, where PDI and final accessory installation are also likely to take place. In these cases, carriers might make milkrun drop offs to chosen customer locations. Creating such loads and routes is likely to lead to longer lead times, leading to more instances where final delivery – or indeed, test drive bookings and maintenance – is performed by single vehicle trailers or by individual chauffeurs rather than by transporters, as has been seen in China.

That would impact on overall network efficiency and load utilisation, but such flexibility could also bring service and potential pricing benefits to vehicle logistics providers.

There are other areas of potential for vehicle logistics specialists. In the used car market, some logistics providers have taken on more administrative functions, including managing bookings and deliveries with customers more directly. There could also be more opportunities to take on post-production modification and accessory work to meet customers' online specifications prior to delivery. In some global markets, logistics hubs are also moving towards handling vehicle registration and licencing.

Beyond logistics and service, the shift online could also impact on overall network design and planning. A more integrated customer sales process will increase transparency of data around demand and fulfilment across distribution areas. For example, as OEMs are able to build more vehicles based on actual customer orders and interest, vehicle logistics networks can reduce vehicle inventory and align capacity and transport assets to demand.

The recovery phase of the coronavirus crisis has already led to a greater focus on prioritising specific customer order and demand areas. Andreas Tostmann, board member for production and logistics at the Volkswagen brand, said that the carmaker has reoriented its production strategy to prioritise 'blue cars' (referring to vehicles already allocated to a specific customer) over 'grey cars' (referring to vehicles based on dealer and importer forecasts).

The objective is to meet actual customer demand more quickly and reduce unsold vehicle inventory to improve cash flow. It would also help a carmaker like Volkswagen to build the

vehicles in greater demand first, for example those models that would benefit from government incentives over the coming months.

This 'build to order' strategy is common on the premium OEM side, especially in Europe, but less so for more of the mass volume brands. With dealers still set to be the main gatekeepers of customer selling, we don't expect a huge shift in the short term to a complete build-to-order model, but the online process should improve overall visibility and alignment in the network. And that would be an advantage for vehicle logistics providers as well.

Further along, a more automated vehicle order, production and delivery model could take shape, in which customer specifications are communicated directly to an automated production plant from which the vehicle would then be delivered remotely – perhaps even self-driving it to the customer. Science fiction for now, perhaps, but it is not unfeasible in the future.

A wider question remains over whether more vehicles could also be delivered directly out of OEM stocks. In some cases, online orders even through dealers lead to fulfilment directly from factory yards. Direct sales from customers, however, would depend on the degree to which dealerships have exclusive supply and distribution agreements as most currently do. So far, we still see most of the sales completed through dealers even in a digitalised process.

But there are larger questions over the eventual role of dealers as more sales switch online. Today, many dealerships claim to lose money on as many as 9 out of 10 new cars sold, with profit often made on traded in vehicles, approved used vehicles, aftersales and service. Are they therefore truly needed as a point to sell new vehicles? Should they revert more to being service centres and otherwise pure 'showrooms' as seen in other sectors, where people view the product in person and then buy it online (often more cheaply)?

OEMs do have the potential to use their own online platforms and brand power to sell direct to the consumer. In principle, that could help them keep prices lower and introduce new vehicles to market quicker. Tesla has done this in a number of markets, while even traditional OEMs are experimenting with more direct selling. For example, Ford's new Mustang Mach-E has received over 40,000 pre-orders – with 95% of those made online and only 5% in the dealership.

However, it's notable that Tesla has experienced pushback trying to sell to customers without a dealer network, both in legal battles and also from some customers. Earlier plans to close most of its stores and do away with traditional test drives were later shelved. And OEMs are also reluctant to abandon the franchise dealer model. Ford's pre-orders of the Mach-E required customers to select a participating dealer to which vehicles were then allocated.

9. Conclusion: A dynamic evolution

Online vehicle sales are unlikely to revolutionise the industry overnight in Europe, and especially not for vehicle logistics. The coronavirus crisis has, however, greatly increased the requirements for contactless, safe delivery, and with it diversified the potential for alternative delivery locations and methods. For the most part, these remain at or through dealerships, but raise interesting consideration and potential for logistics service.

Beyond the crisis, we expect a gradual transition to online sales and delivery as part of a wider digitalisation of supply chains, manufacturing and vehicles themselves. In many examples, dealers are becoming more digitally savvy and using simple, effective tools to support sales.

However, online vehicle sales should not be underestimated as a trend. They have potentially profound implications for the entire distribution and retail chain, including how finished vehicle logistics providers organise networks and fleets and opportunities to integrate their systems and services. It may well be evolutionary change, but it is likely to be a highly dynamic one.

10. Appendix

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