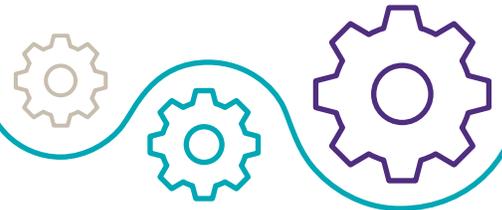


Industries at a crossroad:

How can car dealerships adapt to changing customer demands?



Adapting to change is now part of the cost of doing business—and a range of industries are now at a critical crossroad. Customer demands—including the growing presence of e-commerce platforms and digital product and service channels—will continue to alter the landscape. In our first article examining industries at a crossroad, we outline how car dealerships can maintain their relevance in a market that’s increasingly shaped by digitization, supply chain disruption, and changing customer needs and behaviours.



Historical shifts and growing pressures

There's been a growing shift in the retail car-buying experience over the last two decades. While historically slow moving, the past two years have accelerated change due to evolving consumer demands and significant supply chain issues. Where the process to buy a car was once entirely driven by a physical visit to a dealership, the industry has pivoted to a hybrid model that combines digital and in-person purchasing processes. Consumers are increasingly educated from internet research, including online videos and elaborate websites from manufacturers and dealers that typically list their available inventory. The result is that they can now make informed choices without leaving home.

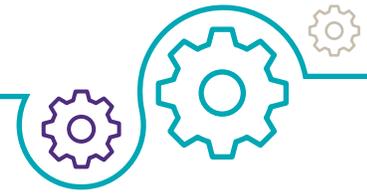
Ongoing supply chain challenges and outdated sales tactics haven't helped to create lasting relationships with customers. Dealers with low inventory have been advocating for buyers to custom-order their cars; in reality, the process has become more robotic, where the dealer has little importance in the process other than acting as an order taker. Many dealers have adopted a "take it or leave it" approach in response to pent-up demand and low stock. This frustrates customers but sees dealers reaping strong profits due to low inventory carrying costs and the ability to sell their inventory quickly at a non-negotiable price. It all leads to a key question:



There is growing concern that the dealership's role will become irrelevant—and its future success will largely be driven by their ability to create personalized buying experiences for educated buyers and establishing long-term relationships with their customers.



What's the dealer's value proposition when customers are walking away feeling like they're not equal partners in the process?



An industry at an inflection point

The industry is now at an inflection point: original equipment manufacturers (OEMs) have mandated substantial investments by dealers to build expensive structures, which can mean taking on substantial debt, yet dealers now face fewer in-person customers, inventory shortages, increased labour costs, and high inflation. Once consumer demand drops due to diminished buying power, buyers will also become more cautious with their dollars as infrastructure costs continue to rise. It's clear to automotive retailers—and their lenders holding significant debt—that something needs to change. The survival of the dealership will depend on finding new ways to attract customers, keeping their best people, and reducing costs.



An evolving consumer experience

The savvy consumer doesn't miss old-school heavy-handed sales tactics—they want a seamless and streamlined process for purchasing a vehicle. This demands significant behavioural and cultural changes: the dealership and its sales force will need to move away from stressful negotiation tactics and high-pressure approaches, and sales associates will need to present themselves as more professional and informed representatives who can offer personalized responses to their customers. In other words, dealerships need to adapt to provide a positive consumer experience that can't be substituted with online research and e-commerce.



A new paradigm for manufacturers and dealers

The relationship between manufacturers and dealers should evolve in step with changing customer behaviours and expectations by employing new technology and skills to help their sales associates provide innovative digital enhancements to the purchasing experience. In an interview with McKinsey & Company, Matthew Gold, former chief strategy officer of Cars.com, says this can be accomplished by investing in end-to-end digital partnerships to ensure their offering is similar to—or better than—a digital-only experience.

The customer experience in retail vehicle sales was created by auto manufacturers; however, they do not have the same access to customers as dealerships. This means manufacturers need to reinforce their relationships with the dealerships to create brand loyalty.

As suggested by the Accenture Report, “A customer experience reboot: Pivoting toward the automotive industry’s future success,” the manufacturer should:



Regain dealer's trust



Build a 1+1>2 win-win relationship

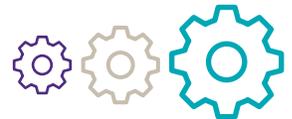


Define the future role of the dealer



Create flexibility in implementation¹

¹ Accenture (NYSE: ACN); (NYSE: ACN): Article: To Boost the Customer Experience, Automakers Must Enhance Collaboration with Dealers, Accenture Report Finds: New York, January 6, 2022



The report's first recommendation requires manufacturers to recognize and acknowledge that dealers are likely to "remain the backbone of autonomous sales and aftersales for the foreseeable future." A strong and cohesive relationship between dealers and manufacturers can be accomplished by focusing on budgets, sales areas, and data system integration. This will create the data pool necessary to build this enterprise, as noted by the report.

Instead of having dealers accept a set of rigid new processes and procedures, manufacturers can adopt a flexible approach by presenting dealers with a list of ways to address and bolster their markers for success. The report further says that dealers can then pick and choose which applications will promote sales and growth (e.g., demographics, commercial vs. retail, urban vs. rural, etc.).

The role of technology and digitization

Manufacturers are finding high-tech and low-tech ways of channelling the potential customer to their dealers and salesforce. For example, in a Sitel Group article called, "What is the future of car dealerships?" BMW has employed big data analytics to steer prospective customers to their brand and dealer locations, while U.S. luxury car brand Lincoln has utilized dealership experiences with more than a simple test drive. This includes providing dealers with specialized calendars of live events, cafés, and small restaurants within their welcoming waiting areas. With these immersive purchasing experiences described in the article, manufacturers are ensuring the potential customer is drawn to their brand.

Advancements in technology now allow manufacturers to directly connect with consumers. Before a potential buyer ever enters a dealership, automakers can collect and analyze data through a car's connected and digital components. For example, data can be obtained by inviting consumers and automakers to live events featuring both physical and virtual test drives. The BCG article, "It's time for a new way to sell cars," explains that the data can be collected and analyzed for preferred models and features in a specific dealer's demographic area, thus growing sales by increasing the odds of having suitable vehicles as part of a retailer's inventory.

The Sitel Group article also explains how J.D. Power makes the case for identifying a pathway into the retail vehicle purchase experience. They have researched that it takes on average ten hours and a three-month process to achieve this pathway. With approximately 120 digital touchpoints and as many as four pivots between on-line and in-person encounters, it becomes crucial that these shifts are seamless, productive and informative. When an initial in-person exchange with a sales associate turns a client off, the customer may be permanently lost to that retailer—and the entire brand.

The importance of branding

In order to draw customers to their brand, manufacturers and dealerships should access the channels being used by their potential car buyers, including paid ads on search engines such as Google or on social media platforms like YouTube, Facebook and Instagram. They can also create digital and physical contact centres that provide live chats and responses, adds the Sitel Group article. It's important to note that establishing a strong brand shouldn't be limited to digital marketing—research suggests family, friends, and work colleagues continue to be the number one influence for the potential car buyer.

Bain & Company's study of more than 5,000 car buyers

from five of the largest car markets says, "among survey respondents,

44% of buyers

follow recommendations they get in their private environment."

The dealership's role post-purchase

A vehicle's post-purchase maintenance and repair costs makes it obvious the retailer's role must remain invaluable to the customer. Research from the Sitel Group article suggests customers who visited a dealership for servicing and maintenance and who had a positive experience are more likely to return to that dealership to purchase their next car. To get the consumer experience right, the dealership should implement and perfect an informative and personalized after-purchase process and maintain communications with the buyer.

Used cars also make use of service and parts departments. Dealerships should reinforce that a good rapport with both service and parts will be beneficial to the customer and can build a sense of trust that will translate to proper care and use of OEM parts in their vehicles. In turn, clients who buy their cars from that dealer can be rewarded for their loyalty. This can include prioritized service appointments, special service and parts discounts, and other perks such as free shuttle service or home pick up and loaner cars.

Have questions? Let us help.

Technology and digitization play a crucial role in all industries and are a driving force behind changing customer behaviours. The moment of truth for dealerships will be the ability to create and maintain unique, personalized, long-lasting, and positive interactions with potential buyers, while dealers with a short-term focus on maximizing profitability—while ignoring their customers' changing needs and expectations—will likely be left behind. We can help you navigate complexity and change to find the way forward.

Look out for more content on our industries at a [crossroad hub](#).

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