Dealership of the Future

The Emergence of New Dealer Formats and New Business Realities

At the Major City automotive "dealership mall" (below) near Moscow, Russia, nearly 20 vehicle brands are represented in one entertainment park, with both sales and service offered, together with restaurants, an Internet café, a hotel, a shopping mall, a children's play area and a free cinema – with many of these businesses offering subsidized services as a way of increasing foot traffic into the retail park. Most of the dealerships are open long hours and the reported average sales rate is five vehicles per hour, with 50% of sales occurring on weekends.

Similarly in the U.S., Driver's Village in Cicero, N.Y., features more than 20 brands, along with a health and fitness club, driving school, café and catering, tax service, floral shop and other businesses. The approach is unusual compared to most dealerships today, but these multi-brand mega dealer malls may represent one of the dominant dealer formats of the future.

Factors Driving Change in the Dealer Business

The dealer business is undergoing significant change that will alter the industry landscape and result in new business realities for original equipment manufacturers (OEMs) and dealers alike in the coming years. The current state of the overall economy combined with the growth of the automotive business in developing markets such as Brazil, Russia, India and China is speeding the pace of this change and in turn leading to corresponding changes in mature markets like North America and Western Europe. Several key factors are driving this change.

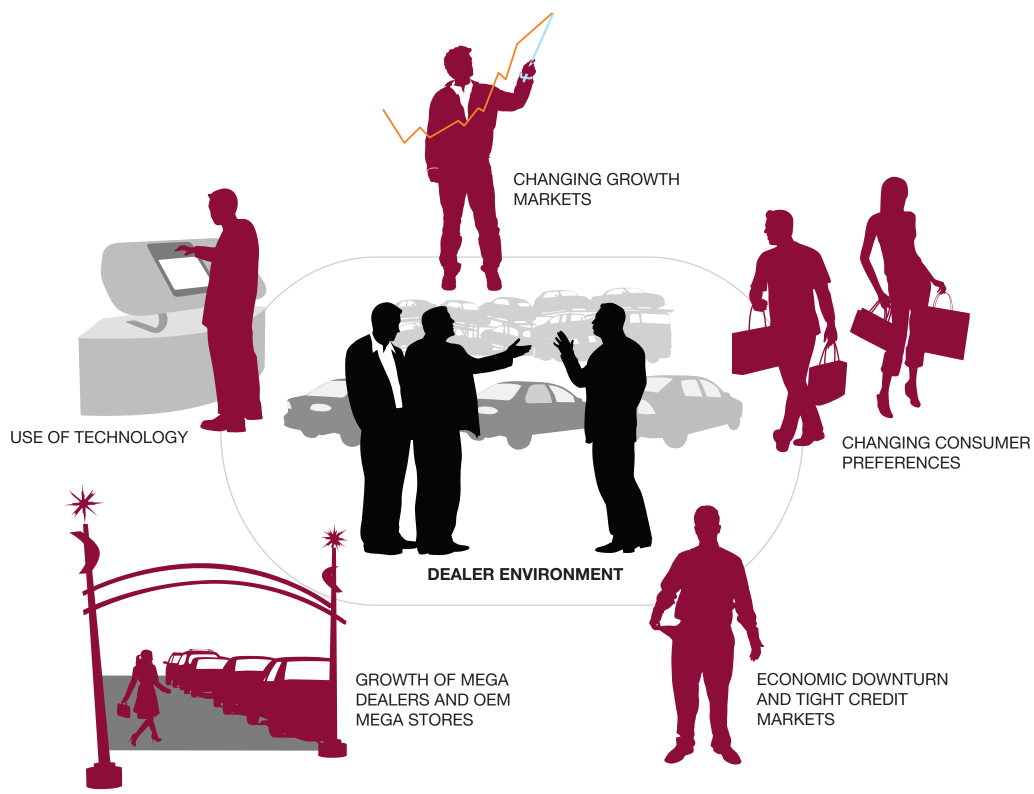
Emerging-market growth: As vehicle sales decline in mature regions, sales and dealer growth will continue in some emerging markets, albeit at a slower pace than anticipated due to the economic downturn. According to some estimates, by 2012 between 30% and 40% of all vehicles sold will be purchased in the developing markets.

In China, for example, vehicle sales rose 6.7% last year, according to the China Association of Automobile Manufacturers, down from more than 20% in 2007. The slowdown is attributed to the overall economic downturn and higher fuel prices. In India, the slowing economy, tight credit and higher interest rates have also contributed to lower vehicle sales growth. The Society of Indian Automobile Manufacturers projects 2008 auto sales growth of approximately 10%, down from earlier projections. The slowdown is expected to continue in 2009.

Similarly in Brazil, tighter credit and higher interest rates resulted in a 2008 sales growth of 14%, down from 28% in 2007, according to the Brazilian National Federation of Motor Vehicle Distributors. In Russia, sales of foreign brands were up last year but domestic brands declined. And the Automobile Manufacturers Center of the Association of European Businesses projects a vehicle sales drop of approximately 18% in Russia in 2009.

Use of technology: The growing use of Internet tools for research has raised consumer expectations for greater personalization and faster response from dealers and OEMs. This has led to a more fragmented approach to buying a vehicle. In the coming years, consumers will use an increasing number of tools and channels during the buying process, resulting in the

Multiple Factors Altering the Dealer Landscape



growth of multiple marketplaces, including the Internet. Capgemini's *Cars Online 08/09* study found that 44% of consumers said they would be likely to buy a vehicle over the web if that capability existed, up from 20% in 2007.

Consumer centricity: Thanks to the Internet, consumers now have online access to the latest vehicle information and word-of-mouth user opinions about automotive products, brands and dealers. This creates a highly educated consumer and eliminates specific brands/dealers in the first stage of the vehicle buying process. This transfer of control from the dealer and OEM to the buyer has also resulted in more demanding consumers: They want personalization, configuration, real-time information and improved communications. And they want it fast. For example, almost half of consumers expect a dealer or manufacturer to respond to an e-mail or web inquiry within four hours, up from 39% in 2007, according to *Cars Online*.

Personalization has also become more important after the buying process. Two-thirds of *Cars Online* respondents say the receipt of personalized post-sale communications from manufacturers or dealers would make them more likely to purchase another vehicle from that same company.

Changing consumer preferences: The rising costs of raw materials such as steel, as well as volatile fuel prices and greater consumer demand for innovative extras in vehicles all lead to higher costs of buying and operating a vehicle. At the same time, economic and environmental issues are leading to changes in consumer preferences for size and type of cars as many opt for small, fuel-efficient vehicles. In Brazil, for example, 59% of consumers say they currently own a fuel-efficient or alternative-fuel vehicle, and 95% identify alternative-fuel vehicles as an important factor in their choice of vehicle, according to *Cars Online*. Add all this together with sophisticated consumers who are less brand loyal, and you get a potent mix of market dynamics, suggesting that many more sales are open to suggestion.

Fewer vehicle sales (in mature U.S. and European markets) can be expected in the future, while leasing/renting and pay-as-you-go options will likely increase as consumer credit markets continue to remain tight. This may lead to new types of loyalty incentives designed to drive the consumer back to the dealership/brand, as the consumer's next purchase/lease cycle draws near.

The impact of these business drivers on dealers and OEMs will be significant. Retail consolidation in both developed and emerging markets will continue, resulting in some cases in a shift of power from OEMs to large, consolidated dealer groups. At the same time, OEM consolidation will lead to fewer vehicle manufacturers in most markets. Internet information and sales platforms, such as Yahoo, Wal-Mart, eBay, Edmunds.com (in the U.S.), Webmotors.com.br (in Brazil), Carazoo.com (India), Sina (in China) and auto.ru (in Russia), will have a bigger role as sources for both information and vehicle sales. These third-party players are expected to develop specialization, for example toward the luxury segment or mass vehicle market.

Dealer Landscape of the Future

In short, these key business drivers will cause the dealer landscape to evolve considerably in both established and developing markets, with three dealer formats having a key position in the future marketplace.

OEM mega stores: Mega stores operated by individual vehicle manufacturers will become significant players in both mature and emerging markets, particularly in large metropolitan areas. Their focus will be on maintaining strong brand visibility

An Internet café (below) is among the services offered to vehicle customers at the Major City dealership mall in Moscow, Russia.

and the corporate image through events and other marketing/advertising activities. They will also focus on fleet sales and finance/leasing services, with less emphasis on aftersales service. These mega stores will be responsible for maintaining the relationship and communicating with the large fleet corporate customers.

An Internet channel tightly linked to the OEM's advertising and marketing program will provide both research and buying options for customers. In Russia, for example, Severstal-Auto, a Russian vehicle manufacturer, is establishing its own dealer chain to handle distribution of its brands and to differentiate the company from other Russian car producers.

Mega dealers: Retail consolidation in many markets will lead to the growth of mega dealers, which are expected to become the dominant format for the future. These large dealerships (generally defined as having sales of more than US$1 billion) with multiple brands under one roof will be particularly common in emerging markets. They will offer a wide choice of vehicles and services such as financing and aftersales servicing. This is already the primary model in Russia, where large foreign retailers such as UK-based Inchcape, have entered the market.

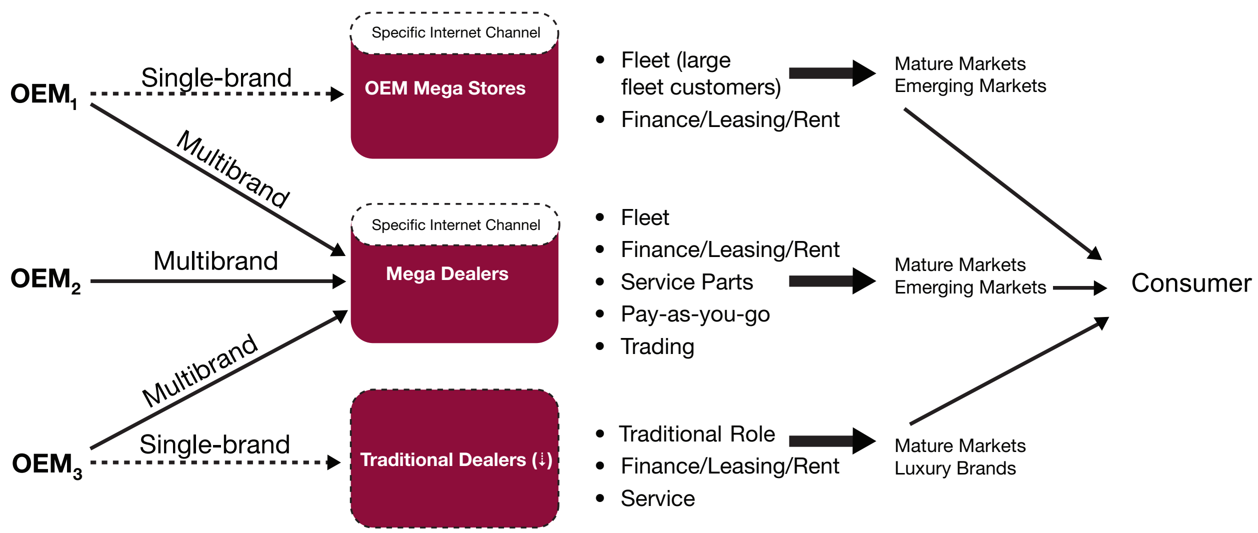
Mega dealers will also continue to gain ground in developed regions. In recent years, large players in North America and Western Europe have been acquiring automotive retail franchises in order to maintain growth and reach new geographies. Consider, for example, that North America's three largest dealers have made more than 180 automotive retail franchise acquisitions over the past five years.[1]

In addition to selling to consumers, these large dealerships will also offer fleet sales and leasing/renting and pay-as-you-go options. Given their high volume, mega dealers can be expected to receive OEM discounts, which may be passed along to consumers in the form of more competitive prices. Benefits for consumers will also come in the service/aftersales area due to a greater selection of in-stock parts, faster service and more aftersales specialists. However, the size of these dealerships will make it difficult to build and maintain customer relationships, which will be an ongoing challenge for mega dealers.

As with the OEM stores, mega dealers will also have a tightly integrated Internet channel for research and buying. Their high degree of sophistication and size will make it possible for these dealers to have dedicated specialists focusing only on Internet leads.

Traditional single-brand dealers: Traditional, single-brand or single-OEM dealers will continue to play a role in mature markets, although their numbers are expected to decline considerably in the next few years.

Dealer Landscape of the Future



1 "Ward's Megadealer 100," 2004, 2005, 2006

There will be few if any traditional dealers in emerging markets. The remaining mono-brand dealers in North America and Western Europe will offer financing and leasing/renting services as well as sales, with a reduced emphasis on aftersales servicing. These dealers will struggle to maintain sales and profitability, leading many of them to look for a specialty focus in areas such as luxury brands.

New Environment Will Lead to New Challenges

In this new environment, dealers and OEMs will face a number of new challenges. For example, the rapid growth of mega dealers in emerging markets will lead to issues with IT harmonization and a shortage of human resources. In many cases, the growth of a dealer's business in an emerging market will outpace its IT capabilities and organizational structure and processes. Due to the multibrand and multichannel nature of mega dealers, these retailers will be likely to seek standard IT packages or build their own solutions rather than implementing OEM-provided systems. At the same time, however, they will need to be able to integrate with key OEM tools such as configurators and vehicle locaters.

As new models such as pay-as-you-go emerge and grow, dealers and OEMs will face additional technology challenges because these kinds of transactions require lightweight paperless processes such as electronic signatures not generally being used today. And consumers' increased interest in personalization will require that dealers and OEMs develop specific user profiles that can be shared among different players in the market.

Leasing and pay-as-you-go models will require improved collaboration between dealers and OEMs for remarketing efforts over the Internet and through supplemental call centers. And as longer warranty periods become more common, OEMs and dealers will need to develop different types of incentives, such as service packages with free oil changes and tires included in leases and pay-as-you-go deals, in order to bring the customer back to the dealership as frequently as possible.

OEM/Dealer Collaboration Models Will Change

The new market dynamics will lead to changes in the way OEMs and dealers work together. Collaboration will become increasingly important in areas such as closed-loop lead management and advertising spending. Data sharing and services will become more important for multibrand mega dealers, leading to a need for more common IT standards and shared services across various brands. And closer integration among the multiple retail channels will become necessary in order to better meet consumer demands for a common experience across channels.

For their part, manufacturers will want to provide a harmonized dealer network and make it easier for dealers to do business with OEMs. For example, vehicle configurations created by a customer on an OEM's website should be available for the whole sales network. OEMs will also look to achieve IT synergies across the various types of dealers in areas such as customer identity, product presentation on websites, harmonized ordering/offering processes and information on stock vehicles.

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How Capgemini Can Help

To adapt and succeed in this new automotive landscape, experience is essential. Capgemini has extensive automotive experience in both mature and emerging markets.

Our knowledge center in India for dealer systems focuses on three key capabilities.

- **Modeling the dealer business processes:** This includes capturing critical details in everyday functions using our Rapid Design and Visualization (RDV) methodology and other process modeling tools, as well as maintaining simulations of geographical variants.
- **Integrating dealer business processes:** This includes a base solution template on SAP Dealer Business Management (DBM), an SAP DBM competent team and a development installation.
- **Integrating dealer IT systems with OEM IT systems:** Our work in this area includes investigating the appropriate integration solution, researching Service-Oriented Architecture (SOA) and third-party implementations, and incorporating recommendations from industry governing bodies such as AUTOSAR (AUTomotive Open System ARchitecture) and STAR.

Our Automotive Center of Competence in Germany has broad expertise in OEM business processes and extensive knowledge of OEM IT systems.

Our global footprint allows us to support global programs with multinational teams of skilled people. Our capabilities are backed up by robust leading-edge tools and methodologies specifically related to OEM/dealer integration, systems integration, business process outsourcing and DBM system implementation. Capgemini has extensive worldwide experience in implementing SAP DBM, as well as SAP Automotive Vertical, and is a pilot/ramp-up implementation partner with SAP. Our experience includes implementations in Latin America and Russia.

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Capgemini, one of the world's foremost providers of consulting, technology and outsourcing services, enables its clients to transform and perform through technologies.

Capgemini provides its clients with insights and capabilities that boost their freedom to achieve superior results through a unique way of working - the Collaborative Business Experience® - and through a global delivery model called Rightshore®, which aims to offer the right resources in the right location at competitive cost. Present in 36 countries, Capgemini reported 2007 global revenues of EUR 8.7 billion and employs over 88,000 people worldwide.

More information about our services, offices and research is available at **www.capgemini.com**

About Capgemini's Global Automotive Practice

Capgemini has over 30 years of hands-on industry and service experience and is a leading systems integrator across the entire automotive value chain. We generate value for companies through our global delivery capabilities and automotive-specific service offerings such as Integrated Lead Management and Customer Relationship Management (CRM), B2C Web Strategy, Service and Parts Management, Supplier Transformation, Optimization of Dealer-Focused Operations, Applications Outsourcing for Automotive OEMs and Global Emerging-Market Sourcing. Our automotive practice serves 14 of the world's 15 largest vehicle manufacturers and 12 of the 15 largest automotive suppliers. Included among our automotive clients are BMW, Daimler, Faurecia, Ford, General Motors, Goodyear, Mazda, Michelin, Toyota, Visteon and Volkswagen. More information is available at **www.capgemini.com/automotive**

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