



New trends in the sales model of
the automobile industry:
A global overview

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The automobile industry has experienced challenges and changes arising from different quarters in recent years. Global automobile sales have slowed down, and the situation only worsened in 2020, and may continue to do so in the months or years to come, owing to the COVID-19 pandemic. Furthermore, with the emergence of new technology, new players in this market (notably new energy vehicle manufacturers) have seized this opportunity to introduce innovative sales models, thereby putting pressure on traditional OEMs (original equipment manufacturers) to reconsider their traditional sales model, i.e., the dealership model.

SALES MODELS

THE DEALERSHIP MODEL

The first car dealership ever established was that of William E. Metzger who, in 1898, obtained a franchise from General Motors Corporation to sell steam autos. During the first two decades of the 1900s, arguably every type of distribution model was attempted in the auto industry. However, by the 1950s in the US, the dealership model had proven to be the most effective for distributing automobiles.

Under the dealership model, OEMs and dealers are independent or even non-affiliated legal entities. OEMs sell their products to dealers, and dealers, through their own chain stores, sell directly to customers. This dealership model gives OEMs more liquidity in terms of cash flow because they collect their money before automobiles are actually sold to end customers. Another major advantage for OEMs under this model is that it allows them to distribute their automobiles through the dealers' sales network relatively quickly and at relatively low cost. By doing so, OEMs are able to dedicate their efforts to, for instance, expanding manufacturing capacity and upgrading technology.

However, the dealership model naturally has its share of thorny issues. Having dealers as "middlemen" increases transactional costs, and OEMs can to some extent lose control over the retail price, or they may face higher anti-trust violation risks if they retain price control over dealers. Under this model, OEMs typically don't interact directly with end customers, which thus cannot provide satisfying user experience, while non-compliance and irregularities in dealers' sales activities can also endanger OEMs' brand image and economic value. In practice, OEMs, in order to improve their sales statistics, might pressure their dealers to buy inventories that far exceed their actual needs. This could aggravate tensions between OEMs and their dealers.

Because of these issues, some OEMs, especially those producing new energy vehicles ("NEVs"), have been reflecting on and exploring new sales models when launching their new products, e.g., the direct sales model and the agency model.

DIRECT SALES MODEL

In 2013, the stock price of Tesla was around \$10 per share. In January 2021, the stock price rocketed to as high as \$850 per share. Tesla's success reflects the market's confidence in NEVs. When looking at the business model used by Tesla and other major NEV OEMs around the world, it is clear that a significant number of them have adopted a direct sales model.

Under the direct sales model, OEMs sell directly to their customers through online platforms and their own offline experience stores, without the assistance of dealers. As an effective way to enhance the user experience, these offline stores are more like a customer experience center than a mere "shop". Meanwhile, OEMs can interact directly with their customers, and will also have independent control over the retail price. Nevertheless, it is worth noting that, on this model, OEMs may have to build their own distribution network and supply chain from scratch, and there will be no dealers with which to share operational risks.

Comparatively speaking, traditional OEMs may appear a bit reluctant to adopt this direct sales model, since they have been more adaptive to and also more dependent on their existing dealership model. Moreover, adopting the direct sales model would involve reassessing, redefining, and rebuilding not only their operational flows, but also re-streamlining the legal contract/compliance framework with their customers, warehousing, and logistics providers, etc. Before embracing the new model, traditional OEMs have been struggling to balance the increased costs and associated risks. In practice, in order to catch up with this market shift, traditional OEMs have tended to test this new sales model in their NEV division.



AGENCY MODEL

The agency model represents a kind of intermediate solution between the dealership model and the direct sales model, which is still rare in the automobile industry. Under this model, certain OEMs entrust local agents or online platforms to sell products to end customers on their behalf; local agents and online platforms act as the OEMs' agents and do not share operational risks with OEMs, which have a final say on the retail price.

An interesting phenomenon is that traditional OEMs are more willing to experiment with this "not fully reformed model" because they intend to make full use of the existing dealership network, and turning dealers into agents helps resolve tensions over inventories and retail price. Financial considerations are another driving factor. It is, after all, quite a big investment for OEMs to build their own stores and distribution channels.

Nevertheless, the agency model raises new problems. In reality, to incentivize their agents, it is not uncommon for certain OEMs to provide subsidies to support their operations (such as store set up) and to some extent create confusion over the role of "agents" and "dealers". Anti-trust risks may thereby arise in some jurisdictions given OEMs' price control under such a model. In addition, as the agency model is relatively new, the effectiveness of agents hasn't been fully examined and validated by the market. OEMs not only have to work out new contract arrangements/incentive schemes with their agents, but also handle the supply chain, customer complaints and even payment/invoicing issues directly.



FURTHER NEW TRENDS IN A FEW SELECTED COUNTRIES

GERMANY

By Andreas Leclaire and Dr Lars Deepen

In the past, the dealership model was the most common model for distributing automobiles in Germany. However, this traditional trade distribution scheme from the manufacturer to the dealer and on to the customer seems to have become a rather outdated, if not old-fashioned model. However, automotive dealers in Germany still enjoy a strong market position. The automotive industry in Germany is undergoing a dramatic digital transformation to tackle the various disruptions currently taking place⁴. These include changes in ownership model preferences, autonomous driving⁵, as well as environmental targets.

Due to ongoing consolidation, the use of new sales channels and the emergence of new forms of mobility, the dealer landscape has been forced to adapt. Digitalization is prompting a growing number of customers to buy vehicles directly from OEMs, at the expense of traditional car dealerships. This is why automakers in Germany and across Europe have been experimenting with online sales as they try to get more involved in the customer buying process⁶.

Of course, the COVID-19 crisis will not bring disruptions to a halt. On the contrary, the crisis is a catalyst and creates opportunities for accelerated change. When customers gradually return to the car market after lockdowns, it can be assumed that they will use online channels more due to their positive experiences.

In addition, customer expectations with respect to the products, services and experiences offered by the car trade are also increasing. Customers, inspired and influenced by their experiences of other industries, expect at the very least an equivalent experience of the car trade. Very soon, car buyers are going to expect manufacturers and dealers to offer convenient, transparent, and dynamic concepts that allow them to select and buy their new cars online.

As a result, the majority of dealers expect the traditional sales channel to lose importance. At the same time, personal advice and counselling is of the highest priority for customers when buying a new car. Dealers will remain relevant but need to adjust their business model due to a changing market environment⁷.

So far, OEMs are only testing direct sales and many challenges remain, in particular regarding the legal situation and identifying the right pricing strategy. But as soon as these challenges are ironed out, the specific role of the dealer will have to be redefined, and not just for the German market.

⁴Deloitte Global Automotive Consumers study 2018 – Advanced Technology Update & Customer Experience.

⁵Deloitte Global Automotive Consumer Study 2019 – Advanced vehicle technologies and multi-modal transportation.

⁶Automotive News Europe, “Europe’s dealer network must shrink further as online sales increase”, 11 December 2019.

⁷Deloitte Global Automotive Consumers study 2018.

FRANCE

By Benjamin Balensi, Perle Pascaud-Blandin, Guillaume Leclerc, and Claire Rouxel

In France, the dealership model is the one most commonly used for distributing automobiles. In practice, this model has an important place in the French market, with approximately 5,000 automobile dealerships across the country.

However, due to changes such as digitalization and the growing place of NEVs, the French automotive market, like many national markets around the world, is undergoing a major transformation. Even though there are still several thousand dealerships in France and only 46% of consumers are willing to buy their vehicle online according to a recent survey⁸, many factors are contributing to changes in the market.

Indeed, more and more OEMs, such as Tesla and Nio, are moving their car sales online. But more “historic” manufacturers are also following the trend. To illustrate, the PSA Group (Peugeot-Citroën) launched its French e-commerce site in the summer of 2017 and plans to sell 100,000 vehicles through this channel in 2021⁹. This new distribution model also allows these historic manufacturers to stand out from the competition by offering new services to their customers, e.g., a completely dematerialized process from configuration to financing and home delivery for the Peugeot, Citroën, and DS brands in France¹⁰.

On the resellers’ side, there is growing concern about the emergence of these new models. Indeed, even if OEMs will always need them as field relays and take care to keep referring to most of their resellers on their e-commerce sites, there is a high risk that dealers’ added value will be reduced over time¹¹.

More specifically, the rise of electric vehicles, which have fewer parts (i.e., cost less to repair) and are in part remotely maintained, deprives dealers of part of their main source of income, which is aftermarket sales¹². This situation is likely to intensify, since the automobile support plan unveiled on 26 May 2020 by the President of the French Republic provides for several increased subsidies to encourage the purchase of electric vehicles. In order to remain competitive, some distributors, such as the dealer Oxylio¹³, have set up their own website or increased their digital offering.

⁸Deloitte Global Automotive Consumers study 2018.

⁹Les Echos, “Automotive: lockdown converts manufacturers to online sales”, 19 November 2020

¹⁰Les Echos, “Companies: when the coronavirus accelerates mutations”, 29 December 2020

¹¹Les Echos, “Automobile: face with online sales, the dealers’ blues”, 20 November 2020

¹²La Tribune, “Car distribution: the announced revolution”, 4 June 2019

¹³Les Echos, “Automotive: Oxylio dealer amplifies its digital strategy”, 18 August 2020

Finally, the situation created by COVID-19 has strongly impacted offline sales. For instance, the automobile industry contracted by about 25% in 2020, with 564,000 fewer sales in the automotive ecosystem over twelve months, bringing sales down to levels not seen since 1972¹⁴. Nevertheless, predictions for 2021 are more optimistic. In general, two aspects of the automobile industry seem to be emerging as winners in this crisis: second-hand sales and the and NEVs sales¹⁵.

To conclude, automobile distribution seems to be in the midst of a major transformation. French customers are looking for a multi-channel, more digitalized offering, to which OEMs will have to adapt. To this end, several scenarios can be contemplated, such as the internalization of sales with flagships stores and maybe even, in the near future, distribution through platforms such as Amazon¹⁶.

¹⁴Le Monde, "Historic decline in car sales in 2020", 4 January 2021.

¹⁵Le Monde, "Historic decline in car sales in 2020", 4 January 2021

¹⁶La Tribune, "Car distribution: the announced revolution", 4 June 2019

UNITED KINGDOM

By Paul Garland and Dr Bryn Walton

In addition to the twin challenges of COVID-19 and Brexit, the automotive industry in the UK is facing an increasingly complex competitive environment: electric vehicles, the sharing economy, start-ups and non-traditional entrants to the industry, the growth of new products and services enabled by digital business models, and an increased focus on sustainability — these factors are all driving uncertainty about the future and influencing strategic decisions.

With overall demand softening and competition for consumer attention intensifying, OEMs and their partners are looking for new ways to differentiate themselves from their competitors, both established and new. As well as making investments in connected, autonomous, sharing, and electric strategies, OEMs are building increasingly complex relationships with software providers and investing in platforms that support more advanced digital capabilities. There is also an increased focus on innovation and changes to brand strategy that recognize the growing demand for a greener, more sustainable value chain.

Perhaps most visibly, there are investments in improving the overall car-buying experience. In the UK, the current automotive retail and distribution model has remained largely unchanged since the 1980s. This has been poor for both consumers and manufacturers. For consumers, buying a car can be a slow and fragmented process with lengthy paperwork involved. For manufacturers, multiple stakeholders contributing to the current auto value chain erodes margins and results in a disjointed approach to selling. This has led to a growing disconnect in the buyer-seller relationship.

Updating and improving a sales process that has not changed for decades poses a unique challenge, but COVID-19 has made it a necessity, forcing OEMs and dealerships to accelerate their plans in order to cope with prolonged closures of their retail real estate.

Post COVID-19, regardless of whether we see a shift towards an agency model of sales or not, one would expect to see a more developed omnichannel sales process emerge in the UK. Offering products both online and offline echoes the multichannel strategy commonly seen across other industries. However, OEMs and dealers need to recognize that an exclusively offline purchase no longer exists. Salesforce has estimated that 79% of consumers conduct online research before making a purchase online . Therefore, to capitalize on digital capabilities and offer a sales model that appeals to the modern consumer, OEMs need to develop an omnichannel strategy that integrates both bricks and clicks allowing consumers to start their sales experience on one channel and complete it on another.

For an omnichannel business model to work, substantial investment in digital technologies across both online and offline platforms is required. Given the scale and coverage of existing dealership groups, the most effective way for OEMs to create a seamless retail experience for their consumers will be to work in close partnership with the dealers.

Some forward-thinking manufacturers are already pursuing opportunities that look beyond sales and distribution channels to create an “ecosystem” of their partners, vendors and stakeholders that delivers exactly what a consumer wants, when they want it, how they want it and where they want it. Key to this approach is the collection, analysis and sharing of data across the ecosystem. The automotive industry is well placed to adopt this strategy. Connectivity, or telematics, is now commonplace in new cars, meaning that OEMs are receiving real-time feedback about the use of their product. An ecosystem that includes the manufacturer, retailer, importer, financier, and service garage all sharing data across a cloud platform is very powerful. Used correctly, the data generated across the entire ecosystem can build a 360° view of the consumers’ needs, wants, preferences and behavior, increasing the ability of all parties to increase consumer satisfaction, loyalty, and even overall profitability.



CONCLUSION

Cost consumer-durable industries have undergone substantial distribution-channel evolution resulting from changes in economics, regulations, or technologies. When we look at automobile distribution models, we anticipate increasing variation in physical channels and formats, and more distinct positioning in terms of the purchase and ownership experience they provide, further shifting the basis of competition from product to services and brand attributes. Undoubtedly, the traditional dealer channel will continue to play a major role, although most of the innovation and volume growth is likely to occur elsewhere.

Therefore, it is important for OEMs to develop a vision of a desired end-game strategy for distribution channels and to begin moving toward that vision, taking care to achieve a balance between the long-term vision and short-term functional improvement agendas.

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