

How technology is moving the automotive industry from products to relationships

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The automotive industry is facing a sea change in how people think about mobility. Technology is fundamentally changing the relationship between businesses and consumers. How can OEMs position themselves to succeed in a rapidly shifting transportation landscape? We talked with John Hagel of Deloitte's Center for the Edge and Joe Vitale, global Automotive industry leader, Deloitte Touche Tohmatsu Limited, to learn more.

What are the most significant changes you see emerging in the automotive industry?

Joe Vitale: For a long time, competition in the automotive industry has been around product, specifically product quality, performance, and safety. But as cars get better and better, we're seeing diminishing returns on improvements in those areas. Instead, our research shows that consumers today value their experience with the brand as more important than vehicle design. At the same time, there's a massive shift toward usage over ownership. Consumers are becoming more interested in mobility on demand, lower cost and higher convenience. That's creating unique opportunities—and tremendous challenges for traditional business models.

John Hagel: It really depends how much of the automotive market shifts away from ownership. The automobile is becoming a rich repository of data about where, and when, each car goes. The value of that data is huge. If I own the car, the manufacturer gets visibility into my mobility patterns. On the other hand, if I take whatever vehicle best fits my needs at that time—through car-sharing, mobile car services, etc.—the data is about the shared vehicle. In that case, the customer's smartphone becomes the best source of an integrated view of the individual's mobility patterns, and the site of opportunity to build relationships with individual consumers.

You've said that to address these changes, the industry is going to have to shift from a product-driven business model to one based in relationships. How might a brand extend its relationship with customers using all this data?

JH: The winner is whoever captures the most integrated, holistic view of individual mobility patterns. Who can deliver value in terms of helping people increase the value generated from, and the efficiency of, their mobility? We're just cracking the surface of how brands evolve to satisfy different consumers, in part because consumer preferences are evolving so rapidly. Where people are in their life cycles affects lifestyle, and Gen Y, Gen X, and baby boomers will have different expectations for transportation. So how brands see their business will need to evolve from selling vehicles to providing mobility on demand for specific segments. They'll have to serve the consumer not only in the vehicle, but in public transportation, taxi services, car-sharing, bicycles. That creates a unique opportunity for brands that can do that across modes, with a focus on the broader customer experience.

What kind of opportunities will arise in the context of this information? How might the intersection of different data sets open up new business opportunities?

JH: Joe was talking about brands shifting to a focus on experience. There's also the notion of shifting to a relationship focus. You need access to data about the individual, so you can get insight through analytics, then use that insight to dramatically enhance the user experience. Next, you need to build a trustworthy relationship with the customer, where the brand promise is redefined: "Do business with me, because I know you better than anyone else, and I can give you much more value in return."

How will these new opportunities require OEMs' existing business models to change? What specific capabilities will OEMs need to develop?

JV: Automotive companies will need to develop three major competencies. The first is this notion of relationships, truly understanding the customer. Today, there's an intermediary between most automotive companies and the consumer. They need to look beyond vehicle preferences to lifestyles, choices, impact—how people make mobility decisions. Second is software development and data analytics. Not software to enhance vehicle performance or features, but creating competitive advantage through software as a business model. Uber, for example, created a new business model by using data to gain knowledge of customer behavior and needs. Third is a new way of thinking about ecosystems—being able to create alliances and relationships with a wide variety of different partners, and doing so quickly and dynamically. Until now, the automotive industry has had very long lifecycles, as befits development of complex products: it's a linear and methodical five- or seven-year process, including a tremendous amount of validation and testing. With a software-based business model, you need to identify shifting market trends and respond to them very quickly. It's a completely different business model.

How do you see the industry dynamics evolving? What might the "division of labor" look like in this kind of extended ecosystem a decade from now?

JH: All the players are going to have to wrestle with that question. Ecosystems can be powerful sources of leverage, giving companies access to competencies, capabilities, and resources that they don't have themselves. On the other hand, you don't want to get lost in the crowd as the ecosystem

grows and becomes more diverse. Success here means finding and occupying the influence points within ecosystems. Where is value going to concentrate in an ecosystem? How can an automotive OEM capture it, then rely on ecosystems for leverage beyond that? Automotive companies will have to choose where to play.

What initial steps can companies take to better understand the choices available to them, and to identify the most fruitful?

JV: As we move from ownership to usage, and also if we move from current vehicles to driverless vehicles, each company will have a significant set of choices. What role will it play in relationship to the customer—and to ownership of data, vehicle operating models, and mobility services? Next, what partnerships will it need to develop, and how can it build those relationships without giving up its competitive advantage? One way to think about it: Where is value being created? For example, who is in position to both create and own the operating system for driverless vehicles, to be the first to get it to market? Do you want to partner with someone to acquire those capabilities, or create them in house? There are risks and opportunities associated with these decisions—and they're the kind of decisions the automotive companies haven't had to make before given the industry's fairly static value chain. But that's changing quickly.

JH: This is a very different approach to strategy than most OEMs are comfortable with. Typically, they've worked with five- to seven-year plans. But in this rapidly changing world, we think the most effective approach to strategy is a "zoom out, zoom in" approach. You try to align senior leadership around a 10- to 20-year view of where the industry is headed and what position you want to occupy in that industry. Then you zoom in and ask, "What are the two or three business initiatives we could pursue in the next six to 12 months to accelerate toward that destination?" Five years is less relevant—it's all about much longer or shorter terms.

And once you've defined your long-term destination, you can think about growth in new ways. With emerging mobility ecosystems, there's an exciting opportunity for automotive OEMs to take a third path beyond organic growth or acquisition. We call it leveraged growth—rather than acquiring companies or developing capabilities internally, you're adding more and more value to your market by mobilizing third parties in the ecosystem that can partner with you.

So what's the best way for a large automotive manufacturer to start going after those new business opportunities? What advantages do OEMs have here?

JV: OEMs' biggest advantage is access to markets. They're truly global, with a huge entrenched capability to serve markets and consumers around the world. If the shift to these new models is more incremental, they can begin to embed capabilities incrementally into the vehicle. They can provide highly assisted vehicles that increase vehicle safety and convenience. They can collect customer data and create new service offerings, leveraging their relationships with customers. But if we quickly move to autonomous vehicles, and they don't own the operating systems for that, or they aren't able to create new business models, like Uber has done, they risk losing their advantage. Another advantage: OEMs understand how to operate in a fully regulated environment, which will continue to be a requirement, and a brake on the speed of transformation. It's going to be a challenging ride. If OEMs can continue to invest in and improve their core business while adopting new business models and partnering with companies that offer the right capabilities, they can certainly emerge as winners. But that means having the right strategy, placing the right bets, and having the right partners to move quickly as the market continues to change.

