



Originally published on LinkedIn on 20<sup>th</sup> May 2020: <https://www.linkedin.com/pulse/retail-network-development-40-dr-jan-burgard/?trackingId=lqvPSrtZQjKWuHLnQ1fUEA%3D%3D>

**Dr. Jan Burgard**

Executive Partner; Co-Founder at Berylls Strategy Advisors

## **BERYLLS RETAIL NETWORK DEVELOPMENT 4.0**

*This article is part of our "Quo Vadis, China?" series. Our full study can be downloaded here.*

### **The future of automotive retail is here. Again.**

Over the past decade, analysts, consultants, market researchers and alike have predicted various futures for automotive retail. Other experts have foreseen the "apocalypse" of physical retail, dismissing car dealerships in China as remnants of the past. A past, in which sales consultants still knew more about cars than their customers and simply displaying new vehicles in a showroom was enough to pull in families for hour-long visits.

However, until today these large dealerships have held up, defying most of the "retail apocalypse" pessimism thrown at them.

### **All in for all-in-one**

And automotive OEMs continue to count on the well-established retail format, the 4S dealership, to sell their cars and services. Cadillac for example, in their ambition to challenge the German trident of Audi, BMW & Mercedes-Benz, plans to extend their network in China by nearly 200 new stores to a total of 500 outlets until 2025.

BERYLLS STRATEGY ADVISORS GmbH

CONTACT  
Dr. Jan Burgard  
Maximilianstraße 34  
80539 Munich

T +49 89 710 410 40-0  
jan.burgard@berylls.com

www.berylls.com  
info@berylls.com

This integrated retail format with sales, service & maintenance under one roof appears to be the safest bet for OEMs and investors alike.

But how long can this last? Taking a closer look, one cannot deny that the brick-and-mortar car dealerships have evolved over the recent years. Interiors are upgraded, processes are improved using digital tools, such as online booking systems for test drives and service appointments. But will such incremental developments be enough? Or are more profound changes in automotive retail imminent?

We do believe that physical automotive retail will survive. But not as we know it today. Automotive retail can secure its future by changing.

### **This time, it's inevitable**

The recipe to sell cars in China was fairly simple. If you wanted more sales, you would just need to build more dealerships. More geographical coverage translated directly into more market coverage, leading to more vehicle sales. But economic growth has slowed in recent years. Today, the dynamics have changed. Sky-rocketing rent & land prices increase the cost of new physical retail outlets – and existing dealerships require costly upgrades.

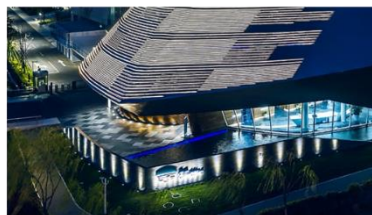
### **Raising the bar**

Physical retail has been changing even faster in other industries, especially in the consumer goods sector. Customers are rapidly exposed to new in-store experiences and conveniences. Successful omni-channel strategies, for example, encourage shoppers to discover products online and pick up purchases in person so they can receive an extra bit of excitement in-store.

Customers are transferring their expectations across industries, requiring car retailing to evolve. Therefore, OEMs have experimented with pop-up stores in highly-frequented urban areas. In addition, first lifestyle-oriented and brand experience based formats such as the Mercedes me stores appeared and the format diversity is increasing: "Porsche Studio", "Cadillac House" and the "House of Beautiful" by Aston Martin are prominent examples.



The Porsche Studio is located in the well-known luxury shopping mall "Parc Central"



In March 2019, Cadillac opened the Cadillac House in Shanghai to showcase the brand's New American Luxury experience



Aston Martin's *House of Beautiful* opened in Shanghai in 2018. It is the first of its kind for Aston Martin

Retail format diversification can also benefit aftersales as tightening environmental regulation, zoning restrictions and ever increasing rent and land prices will force some services that include chemicals and heavy mechanical repairs outside of inner-city areas.

We believe that the days of the one-size-fits-all approach to automotive retail are counted – with a more flexible, modular retail approach taking over, simply because it can better respond to customer expectations as well as operational and economic realities.

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Dr. Jan Burgard  
Maximilianstraße 34  
80539 Munich

T +49 89 710 410 40-0  
jan.burgard@berylls.com

www.berylls.com  
info@berylls.com

While the “Future of Automotive Retail” has been predicted prematurely many times we see a wider range of change drivers coinciding this time, at an unprecedented level. Therefore, network planners must quickly shift their mindset from **market coverage** towards **pro-active market exploitation**.

### Focus and flexibility

The best way to address this shift is to rethink retail setups completely. A Berylls-internal study indicates that 4S dealerships alone will not be able to address all upcoming requirements. Instead, more focused offerings will make up winning retail setups. Every customer journey encompasses the minimum steps of vehicle selection, purchase, maintenance, and repairs – all the way to the next purchase. However, brand appeal and loyalty will grow the more a brand can be present in a customer’s everyday life with extra touch points.

Fortunately, sales and aftersales do no longer have to be offered at the same location. Optimum presence in a given market can now be achieved in a well-balanced combination of different formats: fewer, but larger, sales outlets can offer more tempting discovery of a product portfolio. They can improve test drive options and vehicle selection, which are today frequent pain points in Chinese retail. Connected smaller satellite outlets can still ensure proximity to customers’ places of living, leisure and work.

The same principle can be applied for aftersales, where repair services can be consolidated and located in industrial areas, benefitting from lower land cost, looser regulations, and operational scale, while smaller service formats safeguard customer convenience by offering everyday services and drop-off locations closer to the customers.

#### RETAIL SETUP BASED ON FORMATS WITH INDIVIDUAL FOCUS OFFERINGS



Source: Berylls Strategy Advisors

### New planning complexity

This new approach optimises market exploitation and best fulfills customer expectations while keeping facility cost manageable. To implement this new approach with a variety of formats, each with individual objectives and mutual interdependencies, additional complexities in retail network planning arise. The formats need to be planned in an optimal geographical distribution that balances access for potential new customers while giving existing customers convenient aftersales

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80539 Munich

T +49 89 710 410 40-0  
jan.burgard@berylls.com

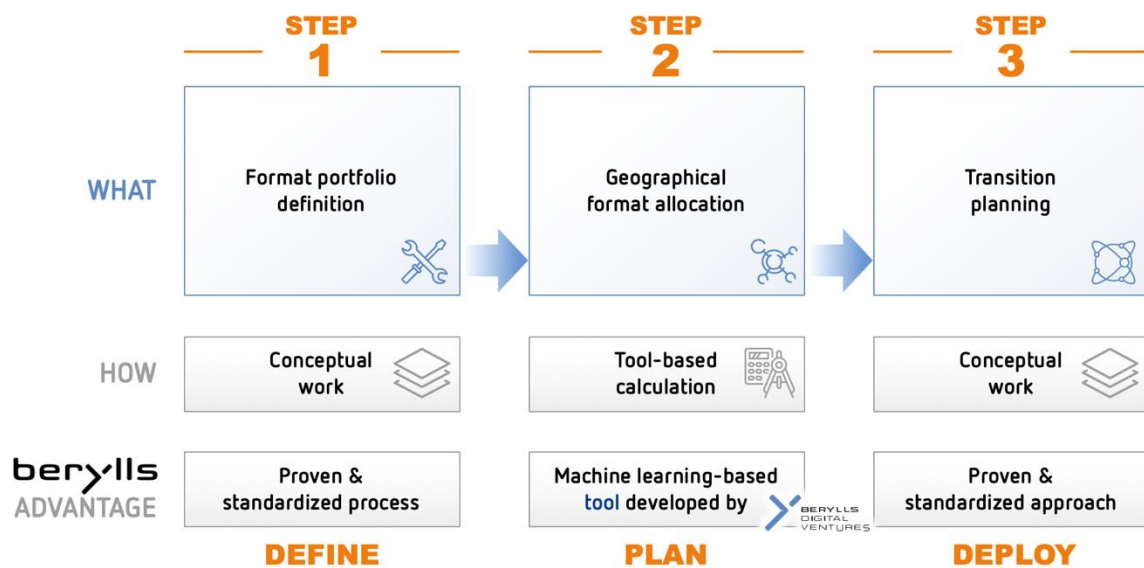
www.berylls.com  
info@berylls.com

services. And last, but not least, any kind of transformation needs to be beneficial for the financial backers. Thus, the new network planning needs to respect and secure individual retail investors' returns, today and in the future.

### The Berylls advantage. For you.

We believe every retail network must be tailored to the uniqueness of the brand it represents. Therefore, we have developed an unique approach, combining a flexible and future-proof conceptual framework with an intelligent, machine learning-based network planning tool.

Network optimization by Berylls is not based on gut feeling or biased by past-experience – it weaves together a solid strategic outlook and our algorithm-based optimization logic.



Our well-proven approach encompasses all necessary steps you need to redefine your retail network from format portfolio definition to format allocation planning and deployment.

With our one-of-a-kind method, we have already accompanied a large number of customers through their retail transformation and beyond. The data-driven and implementation-oriented solution has ensured consistent satisfaction at the same time.

### Weathering the transformation

The Chinese market has changed substantially in recent years. Simple growth strategies will not work in an environment, where the new winners are determined by who can best exploit the market potential. This applies to physical retail, but also to any other business segment in the Chinese automotive market. Read on in our full study on China to learn more about a country you thought you knew.

**Berylls Strategy Advisors** is a top management consulting firm specialized in the automotive industry, with offices in Munich and Berlin, in China, in Great Britain, in South Korea, in Switzerland and in the USA. Its strategy advisors and associated expert network collaborate with automotive manufacturers, automotive suppliers, engineering services providers, outfitters, and investors to find answers to the automotive industry's key challenges. The main focus is on innovation strategies and growth strategies, support for mergers & acquisitions, organizational development and transformation, and profit improvement measures across the entire value chain.

In addition, together with our clients, experts at Berylls Digital Ventures develop solutions for digitizing and transforming the business models of OEMs, suppliers, and engineering services providers. Longstanding experience, well-founded knowledge, innovative solutions, as well as an entrepreneurial mindset distinguish Berylls Equity Partners provides automotive industry companies with know-how and entrepreneurial capital. Strong anchor investors provide financial support for companies at all stages of the value chain in special situations. Berylls's consulting teams are characterized by many years of experience, profound knowledge as well as innovative solution competence and entrepreneurial thinking. Through partnerships with experts, Berylls can draw on in-depth technology expertise, a comprehensive understanding of the market, and powerful networks in order to develop workable solutions.