



Originally published on LinkedIn on 22<sup>nd</sup> July 2020: <https://www.linkedin.com/pulse/how-automotive-retail-evolve-future-what-role-do-new-nev-burgard/?trackingId=SNvtCuuxR2e4xy40ATQMtq%3D%3D>

**Dr. Jan Burgard**

Executive Partner; Co-Founder at Berylls Strategy Advisors

## How will automotive retail evolve in the future and what role do new NEV players and the increasing digitalization play?

*This is the second article of our mini-series on what we call the "new fronts for the establishment". This week, we provide an overview of the new competition. Continue reading in the upcoming weeks for more insights.*

### Automotive industry redefined?

New energy vehicle (NEV) OEMs like Tesla, NIO, Xpeng and Polestar are striving to disrupt the automotive industry. The world is curious to see if and how the new electric carmakers will redefine the battle for customers in an increasingly competitive market and to find out what the "golden rules" for the best NEV customer experience are.

BERYLLS STRATEGY ADVISORS GmbH

CONTACT  
Dr. Jan Burgard  
Maximilianstraße 34  
80539 Munich

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

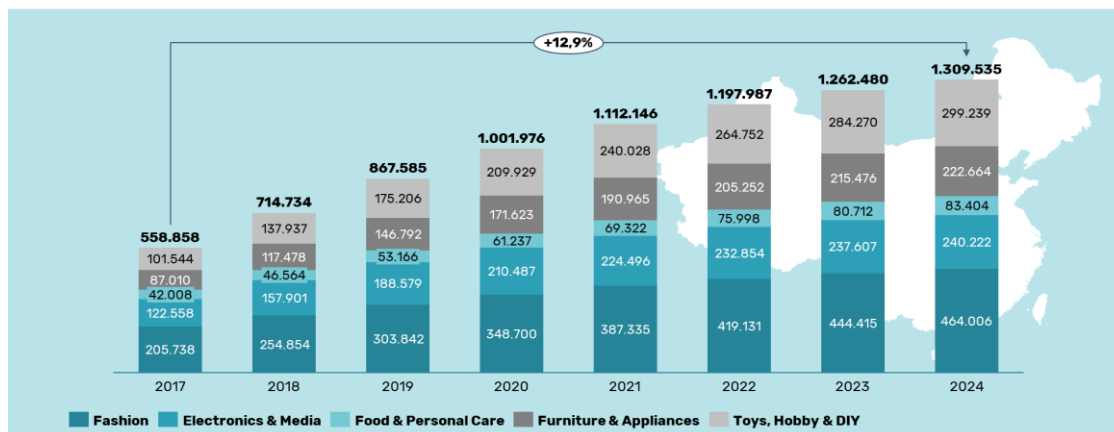
www.berylls.com  
info@berylls.com

## Digital “peer pressure” for carmakers

Within the evolution of car distribution, the e-market place in China is playing an increasingly important role.

Nowadays, daily life in China is embedded in digital elements and almost everything can be bought online in China, whether clothing, food, electronics, medicinal products or even pets. The traditional physical store concept seems to be replaced by the new digital world. This development has accelerated heavily through the Covid-19 outbreak. Purchasing groceries and fresh products online have become the new normal. E-commerce and live-streaming sales, where products & services are sold via live video & chat on WeChat etc., are now part of consumers’ daily life.

### E-COMMERCE VOLUME CHINA IN MILLION USD



Source: Statista Markt, Berylls

But what does this development look like in the automotive industry? Will vehicles ever be sold only online? How will NEV players change the perspective with their push for direct online sales? Will car dealerships still be needed? Can the battle for customers be won “online only”? And how will NEV aftersales be offered in the future?

## Retailing or e-tailing

Let us have a look at the status quo of new car sales of (1) well-established OEMs and (2) new NEV players.

### (1) Incumbent OEM retail – The top dog is styling up

The traditional retail concept of established OEMs in China was characterized by showrooms fulfilling the essentials – displaying and selling cars. The OEMs recognized early on that Chinese customers show little loyalty, i.e. do not stick to one brand, and would buy a car from the competitor at the next best offer. Furthermore, Chinese customers are becoming more demanding with rising expectations towards product offering, product substance, sales personnel’s attitude and the retail experience in general. Retailing cars is becoming more and more challenging because of the high number of new entrants and increasing saturation in big cities. All OEMs are under pressure to win

BERYLLS STRATEGY ADVISORS GmbH

CONTACT  
Dr. Jan Burgard  
Maximilianstraße 34  
80539 Munich

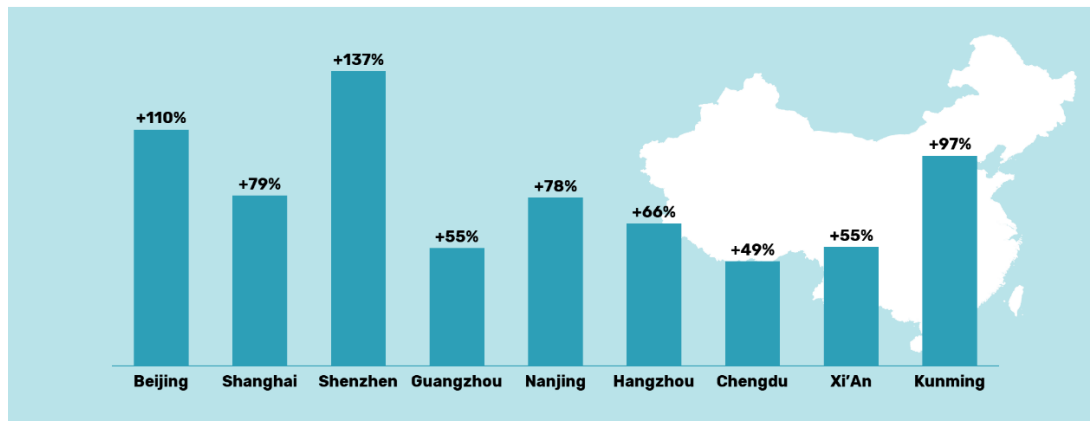
T +49 89 710 410 40-0  
jan.burgard@berylls.com

www.berylls.com  
info@berylls.com

and retain customers: loyalty programs are launched, showrooms are enlarged to display more cars and upgraded with luxury interior features. Dealerships are adding cafés & restaurants, children’s play corners and dedicated areas for special entertainment & media. All of this is done to maximize the retail experience of the customer and to tie them to the brand. However, most of these changes require more physical space and generate none or little additional profit. Keeping in mind that rental prices are constantly rising, many retailers plunge into huge expenses.

### REAL ESTATE PRICE GROWTH IN MAJOR CHINESE CITIES

2014 - 2018, IN %



Source: National Bureau of Statistics, Berylls

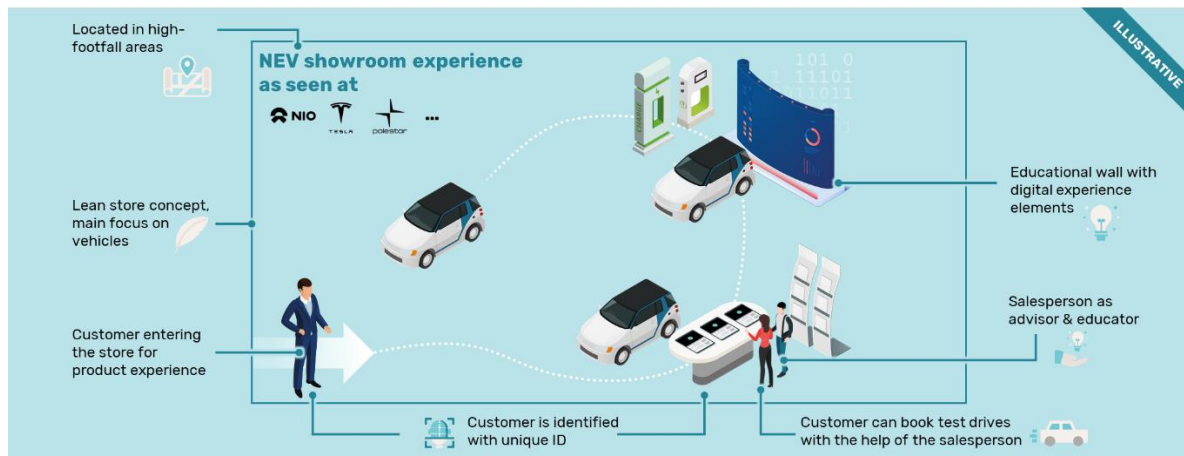
#### (1) New NEV players’ asset light car sales – Boon or Bane?

Unlike established OEMs, new NEV players such as Tesla, NIO or Polestar often have unconventional approaches. Look at Tesla, for example in Beijing. While Tesla currently operates in Beijing out of 10 facilities, Audi, BMW and Mercedes-Benz have much larger retail networks which are each up to 4.5 times bigger. Not only do they operate numerous fully-fledged 4S dealerships, they also have experience-focused formats, extra showrooms and additional aftersales formats.

Tesla’s car showrooms are detached from aftersales and located in high footfall areas, like for many of the new NEV players. They concentrate on major Chinese cities, especially Tier-1 cities, as well as where license plate restrictions are prevalent. Furthermore, many steps of the customer journey are shifted from the offline world to the online world, enabling them to get the rather short remaining in store experience really right. When entering the store, you will not find a salesperson trying to sell you a vehicle. Instead, the Tesla representatives take more of an advisor role, someone who is there to answer your questions, advise and educate you - a pleasant help-to-buy approach, compared to the sales push so common in traditional dealerships.

Many new NEV players like Tesla believe in the method of direct online sales, which means that you technically cannot purchase your vehicle in the store. Yet, when visiting the store, the salesperson can help you to log in online and purchase the vehicle.

## STORE CONCEPT NEW NEV PLAYERS



Source: Berylls

The reason behind direct online sales is simple: first of all, it lifts pressure from the salesperson who is confronted with customers who keep trying to negotiate pricing. By setting one price nationwide, Tesla ensures not only predictable margins but also enables price transparency, an issue of high importance for Chinese customers and a driver of brand image. Another, and more important reason for online sales, is Tesla's ability to capture the customer data from the very beginning. Thereby, when purchasing a Tesla, every customer is identified with an ID, and embedded into Tesla's ecosystem. Creating a customer ID from the very beginning is a strength we observe throughout many new NEV players: NIO Nomi, Weltmeister Super ID or the customer ID in the Tesla app. This way, new NEV players stay connected with their customers, send them push notifications for check-ups, let them control their vehicles remotely via app, enable customers to book service & maintenance online and can send their customers OTA updates. They always know in what condition the car is and can track customer preferences & usage behavior. All this data helps spotting pain points, creating individual offerings, and cutting cost by reducing physical touchpoints to a minimum.

But how do these new approaches change the automotive sales game? Can physical car dealerships retain their relevance? Is digitalization pushing everything online? Or are there physical elements that cannot be replaced?

### Spoiler alert: NEV players cannot bend all the rules

In a recent Berylls customer survey conducted in China among 1,000 customers in cities such as Beijing, Shanghai and Chengdu, we found that NEV customers are generally willing to purchase a vehicle online (that is, making the monetary transaction online), but still want to visit a real dealership, no matter if they later on purchase their vehicle offline or online.

We identified two main reasons that drive customers into physical stores:

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

- 1) Face-to-face consultation and interaction
- 2) Physical experience of the car considered

### The battle for trust is won offline

(1) The explanation for the desire for face-to-face consultation is quite straight forward: many Chinese customers are still first-time buyers, meaning they have never owned a vehicle before. Having little knowledge and experience with cars, they feel safer when information that they read online is verified by the salesperson in the retail store, despite its abundance on websites such as Autohome, Pacific Cars, iFeng etc. Transparent information management is key here, disobeying it will damage customer trust. Besides that, customers in general are mostly new to new energy propulsion technologies. They expect help to understand the differences between NEVs and gasoline cars – not only technically but also with regards to safety, driving performance, charging infrastructure, frequency and duration, electric driving range, service & maintenance frequency and cost.

### Vehicle excitement cannot be replaced online

(2) The need for the physical experience is even simpler to explain: customers want to experience the car. The online world cannot replace the “touch and feel” customers seek, no matter how advanced VR and AR technology will become. Many customers want to feel the materials and its robustness, smell the interior, see the coloring in live, test drive their desired vehicle on real life streets and have a memorable handover ceremony. Moreover, customers prefer dealerships where they have a broad spectrum of vehicles to compare directly. Here the new NEV players sooner or later, with an increasing vehicle portfolio, will run into the limitations of their smallish showrooms in high footfall areas – unless they are able to spend ever growing amounts of money on rent.

Overall, we believe that in car sales physical retail is still needed and surely not yet a matter of the past, despite digitalization making huge leaps in many aspects of life. Showrooms or 4S dealerships are also needed to increase brand presence for marketing purposes, keeping up brand image and “living” the brand reputation, yet we acknowledge that a smooth online to offline transition will increase customer satisfaction.

*The matter seems even more clear thinking about aftersales. We will find out if this is true not only on first sight when we deep dive into this in our next article.*

### So everything unchanged?

Not entirely. Without the burden of extensive legacy systems, new NEV players are “spoiling” their customers with a polished digitalized approach to car purchasing. Traditional OEMs however can still count on their deep experience regarding customer interaction at the Point of Sale and later on in customer care. However, some (in many cases already ongoing) digitalization efforts need stark acceleration and intensification.

Thus, we recommend the following mandatory elements in physical retail:

Traditional OEMs ...

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

1. ... should use the advantages of the digital world and digitalize the customer journey wherever possible, but keep key touchpoints offline to satisfy needs and for reasons of branding: physical stores need to stimulate interest and enthusiasm focusing on physical experiences rather than on sales. This includes test-drives, thorough product explanation, sufficient display cars for a full touch and feel experience; a location at a high-footfall area increases awareness among the passing audience
2. ... need to ensure seamless online to offline integration
3. ... must guarantee transparency and information consistency from the online to the offline world to gain customers trust; well trained staff members are the key factor
4. ... should find ways to provide physical stores in areas customers can reach conveniently

## No time to waste

More and more NEV players take perfect integration of the digital and physical world to heart. For example, these elements are already visible at NIO, who fully exploits the advantages of the digital world in combination with offline physical retail by using a combination of offline retail and online services as their customer interface: while cars are ordered online via app, NIO Houses in the city center act as showrooms and place for vehicle experience.

We also believe that digitalization will make aftersales more efficient (online service booking, online status check, push notification, OTA updates etc.), not only from a customer perspective, but also for the retailers. It won't eliminate the simple need for physical work bays. This is where traditional OEMs are better positioned and have an advantage with their large networks. Nevertheless, with the rise of electric vehicles, there is a big need to think about and evaluate innovative concepts (e.g. not customer facing aftersales) and business models (e.g. partnering with ISPs or an alliance of multi-brand NEV aftersales), because profitability will not stay the same.

*As already mentioned, we will discuss the aftersales aspects in more detail in the next article.*

## What we offer

We want our clients to be ready for the challenges of tomorrow and ensure their businesses remain successful. We help new NEV players and established OEMs in formulating a NEV retail vision reflecting their ambition and strength, defining a dedicated NEV strategy and specifying an action plan. And we help incumbent OEMs to derive the best value from their existing networks while ensuring that they become future-proof.

*This is the second article of our mini-series on what we call the "new fronts for the establishment". Stay tuned in the upcoming weeks for further insights. Up next, we tackle the question: Will new NEV players put an end to OEM aftersales?*

**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.