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NEVs and the progress of digitalization in aftersales: are the profitable days over in aftersales?

This is the third article of our mini-series on what we call the "new fronts for the establishment". This week, we provide an overview of new challengers and their aftersales approaches. Continue reading in the upcoming weeks for more insights.

Recap challenges through NEV sales – what are traditional OEMs expecting?

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Recap of the challenges through NEV sales – what are traditional OEMs expecting?

Previously, we asked ourselves if the increase of new energy vehicles (NEV) in China, the unconventional sales approach of new NEV players, and their innovative ways to engage with customers, will disrupt the overall industry, and limit the necessity for physical retail. We concluded

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that physical retail formats will not disappear because customers seek physical experience to touch and feel, real life usability tests, and consultation with sales advisors.

Similar to our analysis of NEV OEMs disruptive sales approaches stirring up the automotive market we want to discuss further how and what can be learned from new approaches in NEV aftersales and if there is a threat for traditional OEMs' aftersales business.

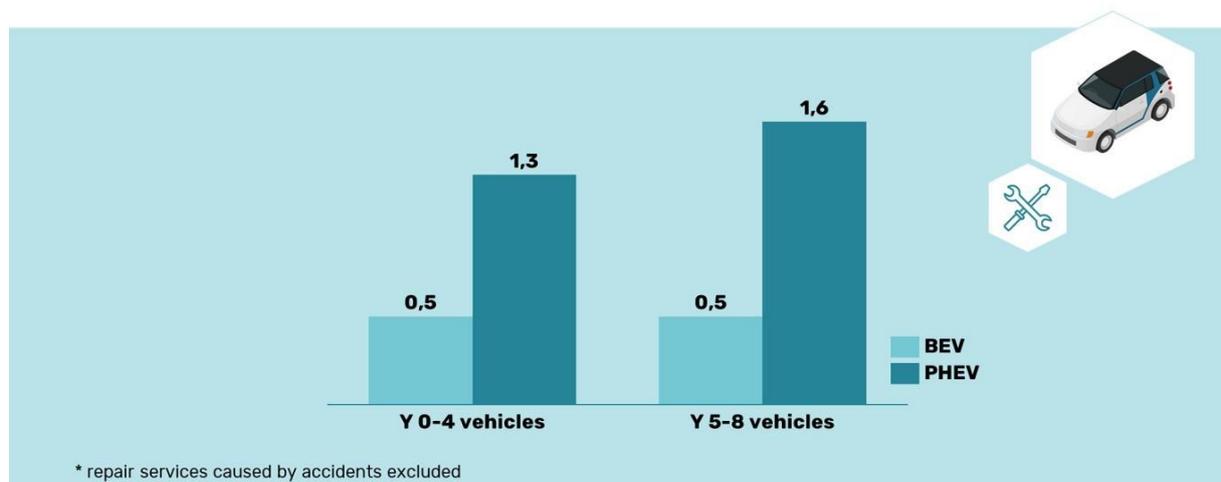
Aftersales – the cash cow of the traditional business

When talking about aftersales, many think of a boring and unexciting business that takes place in greasy workshops and is carried out by rugged women and men. While it might not be the most exciting business area the automotive industry has to offer, it is indisputable that the aftersales business is the real engine that keeps it all going. Aftersales was and still is considered the cash cow, characterized by significantly higher margins than new or used car sales. But this margin seems to be at risk.

Is there anything to be gained in NEV aftersales?

The number of NEVs is increasing at rapid rates, but the NEV car park is still small compared to gasoline vehicles, questioning a profitable business model. Besides the seemingly small scale, what are other challenges? The average battery electric vehicle has much lower maintenance needs than an ICE vehicle. Do OEMs still need their own NEV aftersales at all? Is it a gold mine or an investment nightmare?

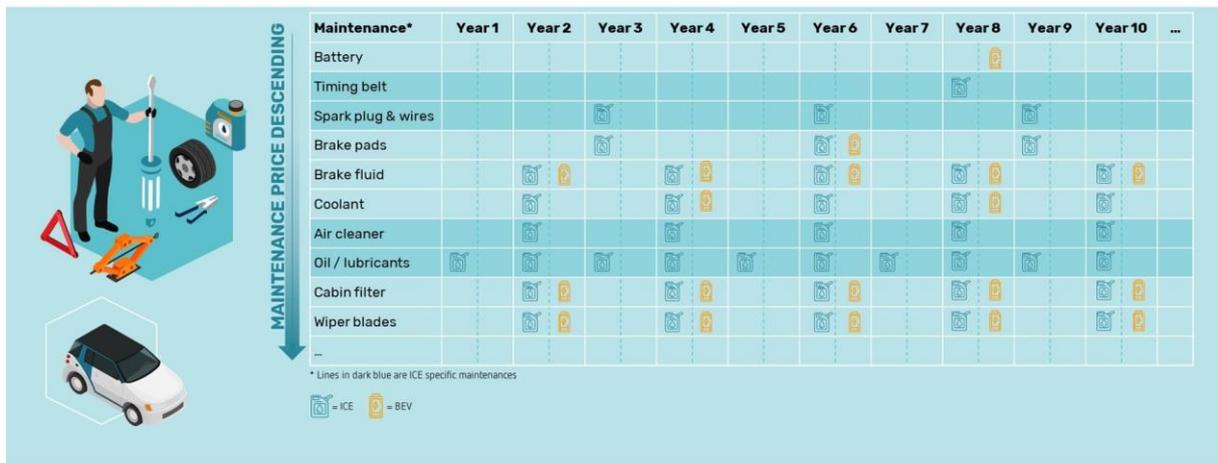
BEV & PHEV YEARLY SERVICE & MAINTENANCE PROBABILITY*



Source: Berylls

In the Berylls Aftersales Study, we have concluded that aftersales revenue will collapse by as much as 1/3 as a result of the electrification of cars. This is because fully electric vehicles require less extensive servicing than ICE since they have fewer mechanical parts that are subject to wear & tear and need service & maintenance less often. For example, Tesla claims that customers purchasing a new vehicle do not need to visit any aftersales within the first 4 years of usage. On the other hand, PHEV cars carry over the full maintenance of an ICE car and add the requirements of the electric powertrain elements.

WHAT MAINTENANCE SERVICES DO NEVS REQUIRE?



Source: Berylls

Aftersales is currently in a state of upheaval: with the governments' endeavor to increase air quality, foster technology innovation and to move away from the dependency on oil, NEV sales are being pushed, which finally leads to a higher demand on NEV aftersales. Yet, many service garages still shy away from offering NEV aftersales services since offering any NEV service is coupled with substantial initial investments, especially for independent service providers (ISPs): transforming the existing work bay to make it "NEV compatible", train and certify technicians and staff to work on high voltage batteries and obtaining licenses from OEMs that allow ISPs to perform service & maintenance on the OEMs NEV. Such investments are currently not yet covered by the potential income, because the number of NEVs and their service & maintenance need remains relatively small today.

It all sounds very dark

Yes, with this development the overall aftersales service market will eventually begin to shrink. We are therefore asking the following questions: what will NEV aftersales contribute in the future? What would be the best business model? How can digitalization help? And how can margins and profits be ensured? And how can traditional OEMs benefit for their traditional business today and for their future NEV business?

...but there are promising approaches!

Many NEV manufacturers have already taken first steps to continue pushing customers into their own service garages on a regular basis: obligatory maintenance visits to the garage are priced into the vehicle prices, keeping owners loyal during the covered period, often in line with the warranty period. However, we know that ICE customers often no longer go to the service of the OEM, as soon as the OEM's warranty expires, but instead turn to ISPs, mostly because of pricing of service & parts.

We have observed partnerships in aftersales, where new NEV players collaborate with ISPs. For example, Xpeng partnered up with Xiaoju Car Service, an auto repair & maintenance service line under Didichuxing Group, to jointly build a smart mobility ecosystem, including online car rental, long-term car rental, charging and maintenance services and thus improving operational efficiency. Xiaoju's car maintenance service will be available in selective Xpeng Service Centers.

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EXEMPLARY CUSTOMER JOURNEY ENABLED BY XPENG

ILLUSTRATIVE



Source: Berylls

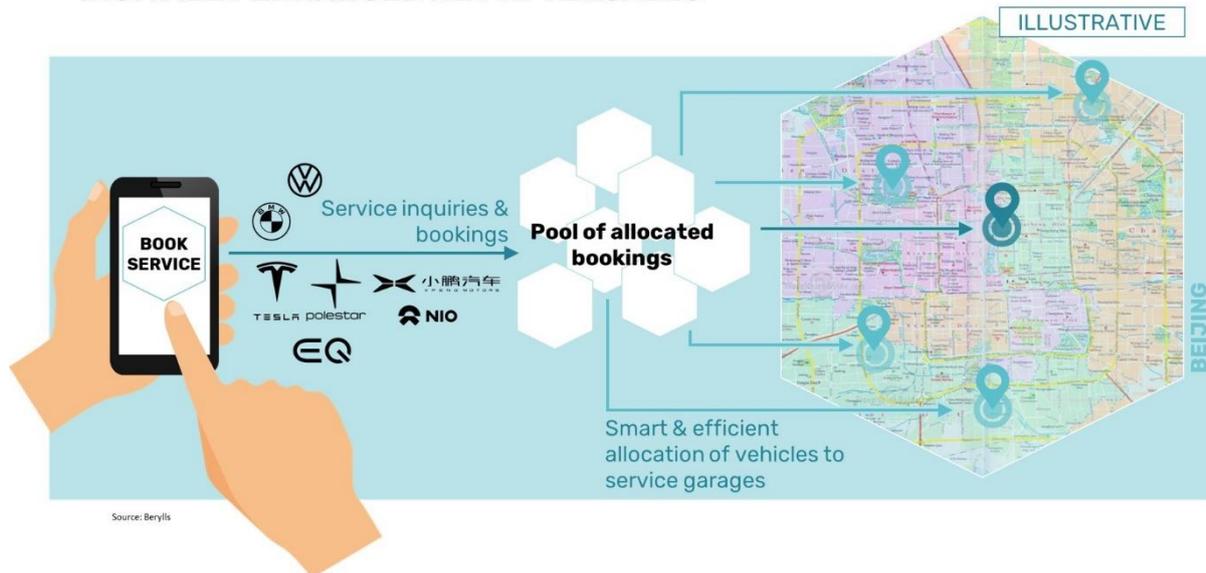
Digitalization as an ultimate enabler for cost efficient aftersales

In our previous article, we already talked about how new NEV players use online channels in their favor: from the very beginning of the customer journey, they obligate customers to register in their eco system and create virtual customer IDs. Only with this ID, the customer can log into the manufacturer's app, and have access to functions such as OTA updates, monitoring of vehicle condition, pre-heating of seats, online service appointment booking, and navigation to the closest charging point.

We have also observed that service platforms are using digital channels in their favor, for example Tuhu: Tuhu operates 1,000 wholly owned service garages and works in cooperation with another 13,000 ISPs across China, covering almost 18% of the aftersales market potential. Tuhu started off as online platform and now offers a seamless integration of aftersales into the digital world connecting customers of many brands with its large network of qualified service centers. Besides offering aftersales parts and accessories online, customers of makes that are serviced by Tuhu can book their service appointment online (after registration only). Tuhu even provides door to door (D2D) services.

The idea behind a business model like the one of Tuhu seems quite promising. Since maintenance & repair rates for NEVs are relatively low and new energy vehicles still scarce, a strategically planned consolidation of the entire available vehicle stock on Tuhu into a pool and allocation of these vehicles into the right workshop helps keeping high utilization rates in participating service garages.

DIGITALLY ENHANCED NEV AFTERSALES



Furthermore, as long as high service quality is guaranteed and customers do trust ISPs, customers will prefer D2D services as they favor convenience in aftersales. By offering a "D2D only" service, running costs in service garages can be reduced as well: the service garage can be built outside the city where rental cost is lower. Also, no architectural specialties to make the exterior and interior appealing are necessary. Front desk personnel, which normally would welcome and greet the customer will also be no longer needed. Last but not least, the systematic booking schedule automatically enables higher utilization of work bays.

But digitalization not only helps increasing efficiencies and reducing cost, but also enables further features, e.g. online status checks and allowing the customer real-time insights into the service progress. The perceived waiting time can be shortened, and the customers' sense of control increased, in turn creating trust.

There are many ways where digitalization is deployed in aftersales in different stages and for different purposes. While service platforms and new NEV players embraced the advantages of digitalization in aftersales, traditional OEMs do unfortunately not seem to leverage digitalization to the maximum extend, if at all.

Aftersales service offerings for various brands is a way to go

In its service garages, Tuhu does not offer its services to only one brand. The ability to grab a larger market share is critical especially when offering NEV services. In combination with their high degree of digitalization, they not only ensure high utilization rates in their garages but also increase efficiency through automation.

Overall, we believe that for traditional OEMs with a small NEV portfolio or an NEV player with a weak aftersales coverage, an official cooperation with a service platform like Tuhu is a very promising business model. An official partnership increases customer trust and the OEM is still be able to tap into profits of the service platform, find ways to communicate with customers and track down the vehicle's data throughout the entire vehicle lifetime. Furthermore, the OEM can focus on enhancing its digital aftersales, like Xpeng: in their pursuit of helping to contain the current pandemic and to stop the spread of the virus, they rolled out a new feature via OTA upgrade for their G3 customers

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that enables high-temperature sterilization of the car, where the car is being heated up for 60 min at 56°C. Regardless of the effectiveness of this method, we think it is a good example of how much potential digital aftersales can have, not only innovation-wise but also for increasing customer satisfaction.

On the other hand, a traditional OEM with a big NEV portfolio and a strong aftersales coverage should consider strengthening its eco system by catching up on the digitalization lead. This requires a solid app and one single system which every dealer uses. Access to customer data can be granted when a customer books an appointment and is forwarded to the service garage. This way, the OEM can use the advantages of its large aftersales network and preserve full control of the customer interface.

What we offer:

The NEV aftersales is a new field many will not yet grasp. Our Berylls NEV Aftersales Business Builder offers a holistic evaluation, from formulating of the respective NEV aftersales strategy to format allocation and outlining of tailored digital aftersales solutions.

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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.