BERYLLS BY ALIXPARTNERS

POINT OF VIEW: THE END OF THE CAR DEALER IS NOT HERE YET – RETAIL EXCELLENCE PROGRAMS STILL MAKE A LOT OF SENSE

INSIGHT

EXECUTIVE SUMMARY

Car dealers are almost as old as the car itself. And 'peak car dealer' was reached before 'peak car'. While the end of the car dealer has been forecasted for many years they are well alive and kicking. Customers, disruptors and OEMs alike have put pressure on the trade to adapt and improve. It seems the necessity to maintain returns for investors in a capital-intensive business has done its part, too.

Several brands have experimented with agency systems – with mixed results at best. And some innovators who launched direct-to-consumer networks had to learn which crucial role retailers play in a brand's success and are now recruiting retail partners. Auto dealers are here to stay.

Nevertheless, the potential for further improvement always exists, also within a brand's network, where a wide span of performance is still too common. Unfortunately, several brands seem to have neglected driving retail excellence – while pursuing innovative sales models, or due to cost pressures.

We at Berylls believe that it is a success-critical task of a brand to (re-)strengthen their leadership and support of retail excellence in their networks. So, how can your brand help its network to continue improving? And how can Berylls help you to do that? Our Berylls Retail Excellence Toolbox focuses on the performance drivers with the biggest impact, it aligns operational improvements with your strategy and boosts innovation. And finally makes performance gains more sustainable. All this in a structured approach utilising the well-proven Building Blocks of our Toolbox.

Read on if you want to know more.

RETAILER (GROUPS) ARE CONFRONTED WITH A MULTITUDE OF (NEW) CHALLENGES

While the automotive industry undergoes constant change and faces growing challenges, every aspect of the value chain is impacted. As highlighted in previous Berylls insights, OEMs and suppliers are facing various challenges, including a surge in new vehicle launches, the costly shift towards e-mobility, a relentless demand for connectivity, and the increasing amount of E/E components and software in vehicles, which results in heighted complexity.

This transformation goes beyond OEMs and suppliers. Retailer (groups) serve as the customer-facing interface, being at the forefront of a rapidly changing landscape. The challenges are multifaceted, ranging from fundamental shifts in sales models initiated by the respective OEMs, to ever increasing cost pressures, making it increasingly complex for retailers to successfully operate while facing increasing competition from new EV players entering the market.

Some of the automotive industry's recent key challenges are:

- **Fundamental sales system decision:** Several OEMs decided to shift their sales models from a old-school franchise model to agency. New players entered markets selling directly to consumers (D2C) sales only – and nowadays some are working hard to reverse their still recent decisions. Amidst that, traditional physical retail partners are continuing to play a substantial role. *Consequentially, retailers remain THE physical contact point for prospects and customers.*

- **Shrinking residual values for xEVs:** With the growing adoption of electrified powertrains ((P)HEV, BEV), retailers encounter new challenges in pricing residual values. This uncertainty complicates Captive and LeaseCo pricing and cuts into used car profits, leading to higher risk, tied-up capital, and strained resources for retailers. *Consequentially, retailers must develop their own strategies for setting and realising used car prices.*

- **Electrification impacting aftersales:** Electrification is significantly affecting the aftersales business. Unlike internal combustion engines (ICE), electric vehicles have fewer moving parts, leading to reduced wear and tear. This shift impacts traditional aftersales revenue streams, such as maintenance, repairs, and parts replacement. E.g., high margin routine services such as oil changes become obsolete. *Consequentially, retailers face the risk of shrinking aftersales revenues and profits due to the increasing electrification*.

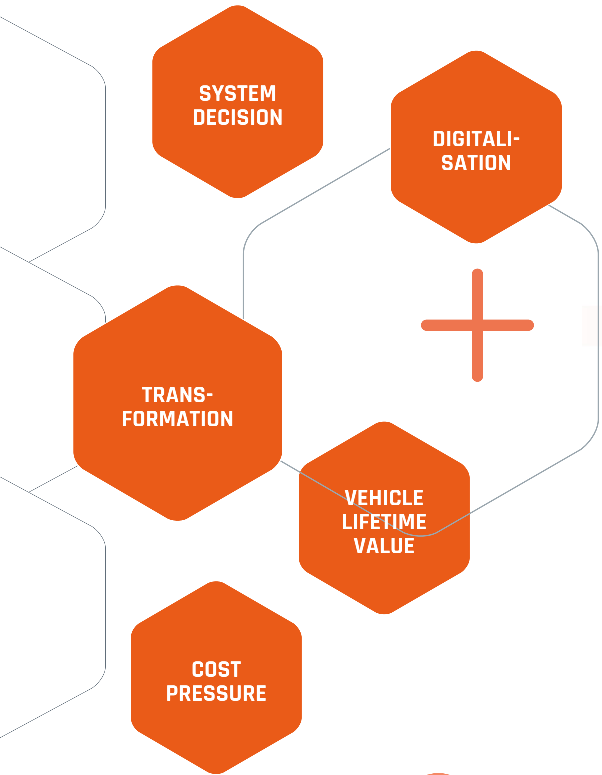
- **Ever increasing digitalization:** Customers expect the same digital customer experience in the automotive industry that they know from other industries. It is especially new industry players (i.e., Chinese BEV OEMs) that try to differentiate themselves by offering connectivity features and dedicated ecosystems, nurturing their brand's tech appeal. Yet, prospects and customers have only moved a large part of their pre-purchase research online. Pure online sales are still relatively small and with limited success. *Consequentially, retailers remain a crucial part of the overall customer journey, both offline and online, and must ensure a seamless journey.*

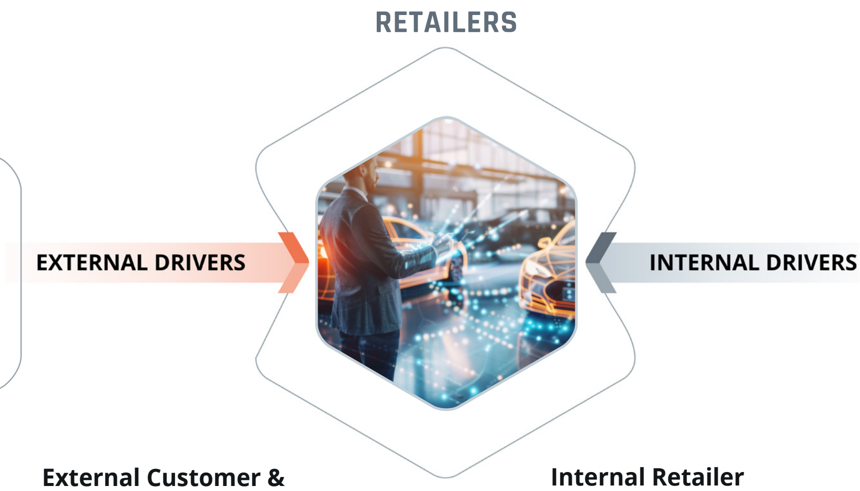
- **Competition for the vehicle lifetime value:** As the traditional automotive distribution model (trinity of the OEM, its retail network, and the OEM-owned captive financing companies) comes under increasing pressure, extended monetization of the vehicle via recurring revenue over multiple vehicle use cycles becomes a critical success factor – increasing the frequency for retailers to sell a mobility solution to its customers (see also our Berylls study "Vehicle-as-a-Service: From vehicle sales to customer and vehicle lifetime value management"). *Consequentially, this allows retailers to build ongoing relationships in old and new segments, offer additional services, and create value through recurring revenue streams, but demanding increased customer engagement.*

THE ROLE OF RETAILERS REVIVES

Retailers are tasked to find quick solutions to these challenges – demanded by the retailers themselves, but also by the OEMs and NSCs (and, of course, by the customers). As these challenges utilize a dealer's organizational capacity, their focus has shifted away from addressing remaining (classical) tasks, such as increasing efficiency within their network or improving operational efficiency.

NEW CHALLENGES EMERGED – WHILE THE OLD ONES STILL HAVEN'T BEEN SOLVED





External Customer & OEM / NSC challenges, e.g.:

- Customers expect seamless transitions between online and offline channels
- OEMs and NSCs derive requirements for processes with limited support for implementation

Internal Retailer challenges, e.g.:

- Constant pressure drives dealers in a reactive crisis mode, limiting the focus on a proactive Retail Excellence program
- Financial pressure from rising costs for well-known operational challenges

This shift in focus impacts both strategic decision-making and the day-to-day efficiency of operations across the organization, forcing retailers in a reactive firefighting mode rather than proactively implementing new concepts. This lacking Retail Excellence can be observed in several areas of a retailer's strategy and operations.

From a strategic perspective, retailers ought to focus on ensuring network expansion or consolidation, e.g. strategically placing outlets to capture untapped markets and maximize their reach. However, the focus often narrows to day-to-day operations at single retailers, neglecting the broader strategic network expansion that could yield long-term benefits.

Additionally, operational efficiency of retailers is affected. A proactive approach involves implementing a holistic performance management strategy by utilizing comprehensive KPIs to drive improvements across various facets of retail operations, while ensuring best practice sharing within the network. However, retailers often find themselves employing high-level KPIs with limited details, which only scratches the surface. This results in a reactive response that lacks the specificity needed for effective performance management. And in the end is basically effectless.

From a customer-centric perspective, retailers must navigate a complex landscape of expectations. Customers demand a seamless integration between online and offline channels, personalized experiences, and around-the-clock accessibility. However, rather than proactively enhancing the customer journey through innovative strategies that exceed expectations, retailers often find themselves in a reactive mode – dealing with customer complaints and grappling with diverse IT infrastructures.

Moreover, OEMs and National Sales Companies (NSCs) add additional layers of complexity on their networks, as rising expectations (e.g. regarding formats, sales targets, changes in powertrains and sales systems, etc.) are met with limited support for implementation (such as manpower and financial support).

In light of the numerous challenges and the revival of the role of retailers, Retail Excellence remains as relevant and crucial as ever – targeting to ensure both top- and bottom-line improvement while dealing with the newly aroused challenges.

THESE CHALLENGES LEAD TO A LACK OF FOCUS ON ACTUAL EXCELLENCE IN RETAIL

OEMs AND NSCs ONLY PROVIDE LIMITED SUPPORT AND SUPERVISION ...

... WHILE RETAILERS ARE OFTEN OVERWHELMED BY THE MULTITUDE OF CHALLENGES

	WHAT RETAILERS SHOULD FOCUS ON	WHAT RETAILERS ACTUALLY FOCUS ON
RETAIL	Ensuring strategic network expansion	Ensuring day-to-day operations at single retailers
	Leveraging existing KPIs to steer retailers and derive measures	Using high-level KPIs with limited details of concrete countermeasures
	Selling financial service products to maximize vehicle lifetime value	Focusing on car sales, with limited interaction to other departments
	Ensuring continuous communication across all levels	Prioritizing immediate operational issues over continuous communication
CUSTOMER	Proactively enhancing the customer experience	Reactively handling customer complaints
	Optimizing sales funnel management	Dealing with open leads
NEW BUSINESS	Constantly evaluate Business opportunities to benefit beyond automotive	Dealing with current situation, limited vision beyond core business

Note: Non-exhaustive overview, based on previous Berylls project experience

WE KNOW THE SUCCESS FACTORS AND THE RIGHT BUILDING BLOCKS FOR RETAIL EXCELLENCE PROGRAMS

The Berylls Retail Excellence Toolbox is a crucial resource for retailers aiming to revive their role and achieve excellence. The toolbox offers a comprehensive approach tailored to the complexities of the industry and the individual situation the retailer (group) is facing. By ensuring organizational implementation, it drives improvements in both top- and bottom-line performance. While the idea of retail excellence isn't new, previous attempts have often fallen short. With our deep industry knowledge and proven toolbox, we know the key success factors for retailers to achieve sustainable implementation.

1 »

ALIGNED STRATEGY & CREDIBLE INVESTOR STORY

Secure retailers' trust & engagement by communicating a credible (investor) strategy between OEM / NSC and retailer. Set & clearly communicate realistic objectives and plans while ensuring that all stakeholders understand and contribute to the collective goal.

2 »

END-TO-END COMMITMENT

Cultivate commitment across all organizational levels, from C-level executives to productive retail staff to the aligned target picture. Clearly define end-to-end responsibilities, ensuring that every department in the organization actively supports the successful implementation of each Building Block.

3 »

SUITABLE IMPLEMENTATION RESOURCES

Allocate and provide hands-on support for every Building Block of the Retail Excellence Program. Enhance overarching performance by ensuring that everyone receives the necessary resources and support, fostering an environment where everyone has everything needed for success – often cross-functional.

4 »

CLOSED CONTORL LOOP ACROSS ALL LEVELS

Harness the power of data intelligence to measure and improve business returns. Establish a closed control loop that involves tracking, reporting, and analysing performance and strategy implementation progress. Implement countermeasures in case of deviations, ensuring transparency & accountability across the entire organization.

5 »

CUSTOMER-CENTRIC APPROACH

Integrate a customer-centric approach into every aspect of the Retail Excellence Program's Building Blocks. Ensure that strategies, processes and measures prioritize on delivering an exceptional experience for the end customer throughout the whole vehicle ownership lifecycle.

» We can provide the promising tailored Building Blocks of a Retail Excellence program that deliver the required results. Each Building Block consists of a methodological approach we can apply in addition to market knowledge and perspectives we bring in, while ensuring sustainable implementation.

We expect promising results from the following Building Blocks – mostly effecting both top- and bottom-line (extract):

- **Restructuring of retailer network:** Implementing a strategic overhaul of the retailer network to optimize geographical presence
- **Improving retailer efficiency:** Driving retailer performance via KPI-driven steering and implementing a comprehensive communication-matrix across all levels and functions
- **Strengthening used car strategy:** Developing and executing a robust strategy (e.g. margins, target segments, etc.), potentially supported via a process-optimized, centralized used car format including in-house vehicle repair and refurbishment
- **Leveraging financial services to drive vehicle lifetime value:** Integrating tailored financing options to extend a vehicle's lifetime value
- **Developing new business strategies:** Deriving new business ideas in a structured approach until go live, even beyond the automotive core business to decrease dependencies and risks

As each Building Block of the Retail Excellence Toolbox is implemented, the positive effects affect the entire organization. The top line experiences a boost through enhanced customer loyalty, increased sales, and a strengthened market position. Simultaneously, the bottom line sees improvements in operational efficiency, cost optimization, and the ability to navigate challenges with resilience. Hereby, the implementation enables the revival of the role of retailers.

In essence, the Berylls Retail Excellence Toolbox is not just a response to challenges; it is a strategic imperative for retailers to thrive in the ever-evolving automotive retail landscape. Embrace it and witness the transformation that the toolbox can potentially bring to your organization's success. All with the overarching goal of driving Retail Excellence to enable the revival of the role of retailers!

Let's dive deeper into this current topic and reach out to us!

GET TO KNOW US.

Berylls by AlixPartners – The expertise of our top management consultants extends across the complete value chain of automobility – from long-term strategic planning to operational performance improvements. Based on our automobility thought leadership Berylls by AlixPartners stand out with their broad experience, their profound industry knowledge, their innovative problem-solving competence and, last but not least, their entrepreneurial thinking.

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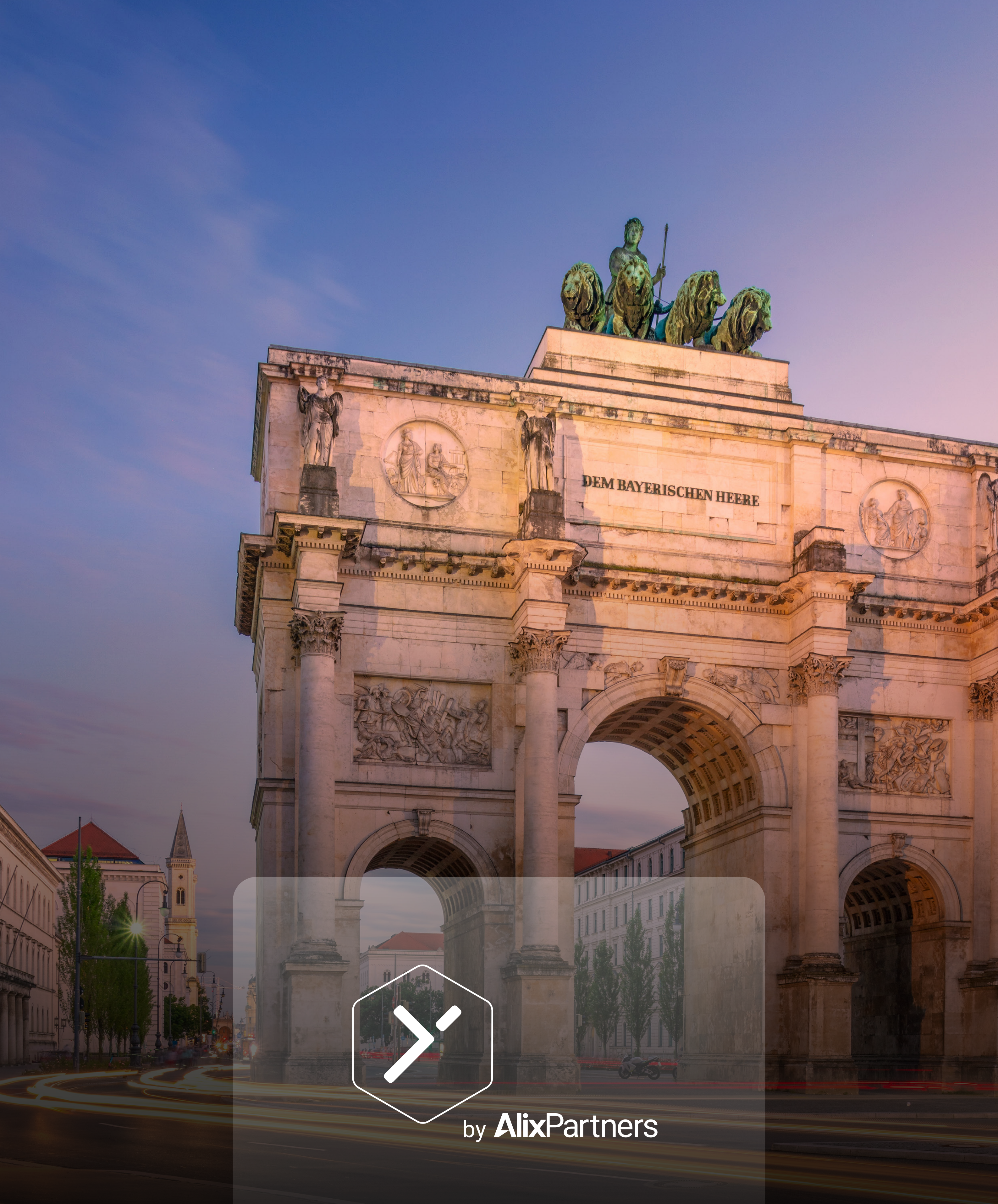

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