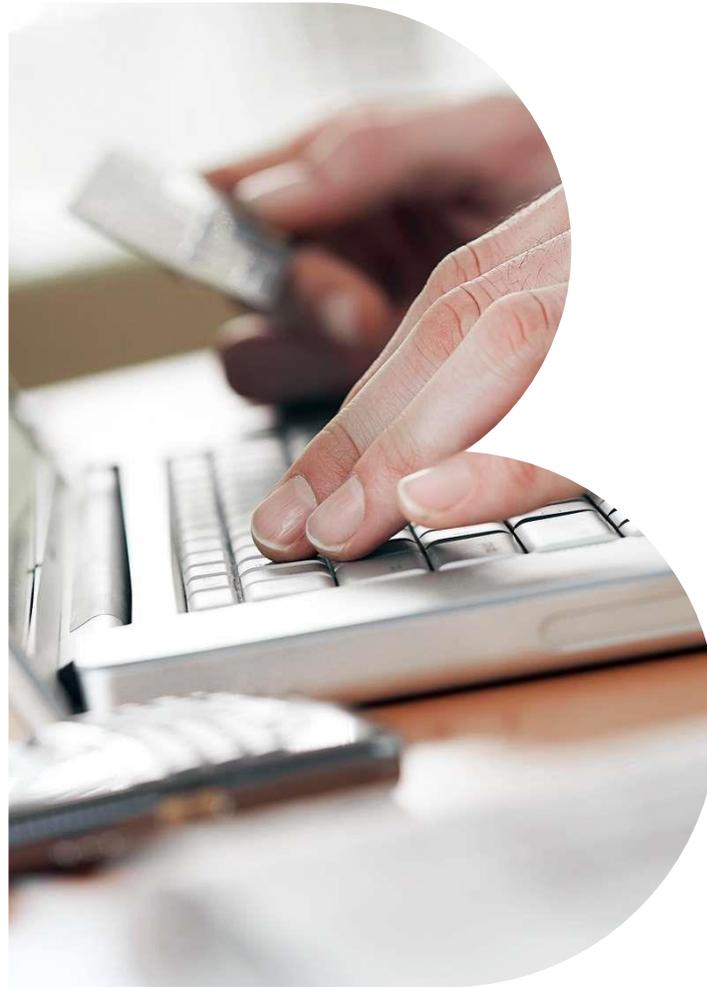


Online Sales of New Cars

Study



Management summary



➤ How the world is today

The way cars are sold is changing, putting market models under pressure. Customer expectations are shaped by retail experiences in other industries, while advanced technology opens up new opportunities within traditional retail approaches

About **10%¹⁾ of new cars are sold online today** – High growth rates expected by market experts, at least doubling today's volume by 2020

Within the German market, there are several dominant players – Four archetypes to be distinguished, each one with its own 'raison d'être'

- > **Marketplaces** for comparing prices of different dealers – High degree of transparency
- > **Brokers** as mediators between authorized dealers and end customer in selling process – High degree of convenience
- > **Special concepts** being a one-stop-shop solution for car leasing – High degree of convenience
- > **OEMs/dealers** where the online shop presents a further customer touchpoint within the multi-channel approach – High degree of trust

Two types of customers within the online market for cars: "**the informed saver**" and "**the multi-channel customer**". Whereas the informed saver has long been a priority for existing archetypes, the focus is increasingly shifting to multi-channel customers; not least because they account for almost half of the market. Hence, online portals focusing on one-stop shops are currently receiving a strong push

Nevertheless, all of the big players in the German market display some gaps in fully capturing the convenience-seeking customer – Reason: customer journey not entirely integrated seamlessly (discontinuity within ordering process, missing link between online and offline world)

➤ Result

Increasing number of start-ups are surging onto markets, especially from the US. Whereas some business models aim at taking the customer journey to the next level, others focus on enhancing specific steps. Both price and convenience seekers are targeted

➤ Suggestion

Current dominant players will increasingly be challenged by new entrants – **It's time to enhance existing business models!** Future success depends on thinking outside the box to find the optimum solution for the future customer requirements. Start-ups from around the world are already demonstrating what is possible within the market for online sales of new cars

1) Definition of online sales: car purchase substantially initiated online, incl. forwarding customer to dealer, online request for consultation

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B. Where we are today: Snapshot of the German market and its players	10
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A. The case for change:
New customer
requirements



Digitization has already fundamentally changed various industries

Digitized sectors in Germany

Retail



- > Large portions of the retail business have shifted to online channels, e.g.:¹⁾
 - Amazon: 187.5 m
 - Zalando: 7 m
 - Cyberport: 1.7 m
- > 40% of department stores closed²⁾

Media



- > Many media have been transformed into digital products, e.g.:
 - 72% of internet users use Wikipedia
 - 10% e-book market share
 - ~4% video on demand
- > Newspaper circulation reduced by 25%²⁾

Travel



- > Travel products are increasingly sold via online portals rather than travel agencies, e.g.:¹⁾
 - Expedia: 2.4 m
 - Holiday Check: 8 m
 - HRS: 2.7 m
- > 29% of travel agencies closed²⁾

Restaurants

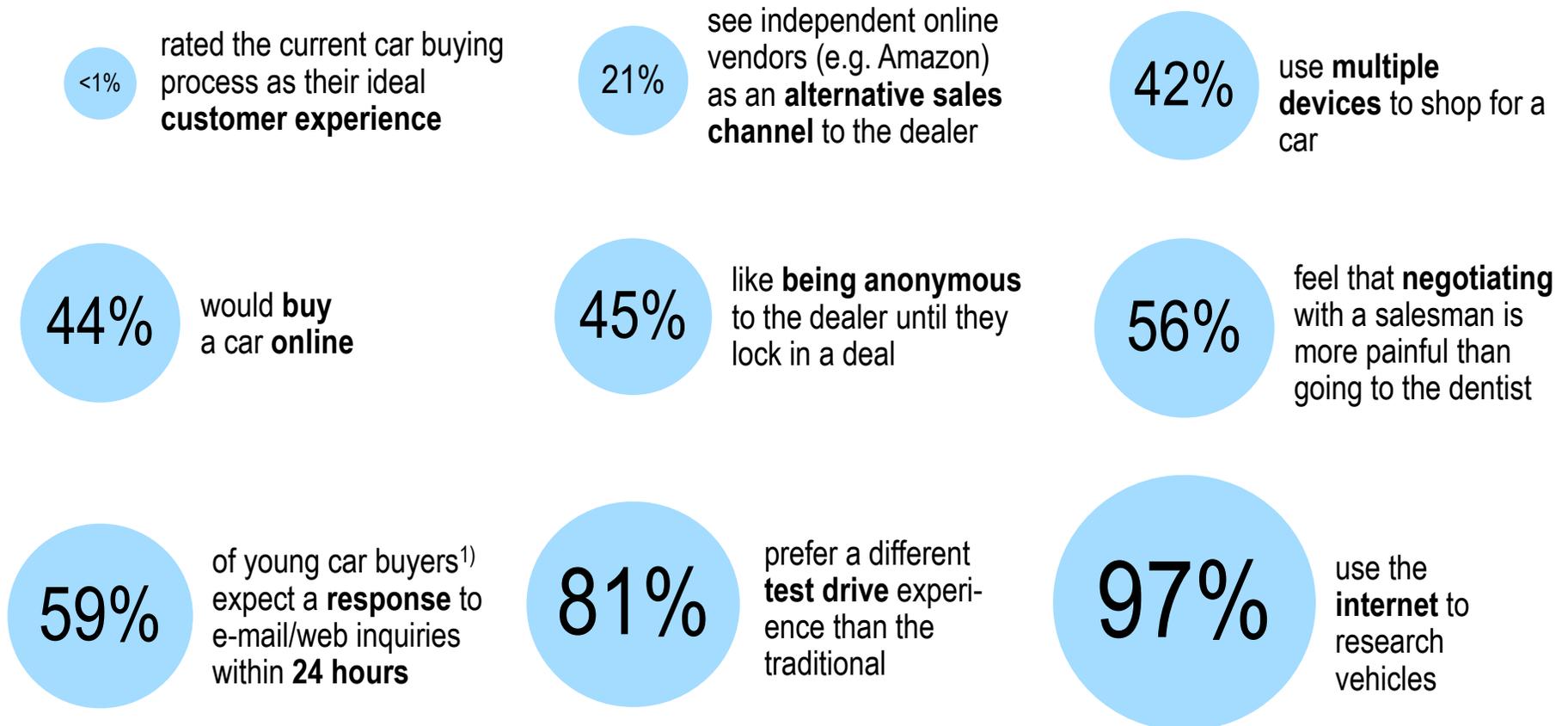


- > Large range of delivery service platforms, e.g. Lieferheld, Lieferando, pizza.de
 - 15% of all Germans have already ordered food online
 - 57% can imagine ordering online in the future
- > Number of restaurants reduced by 17%²⁾

1) Estimated monthly visits (August 2015) 2) Since 2004

As a consequence, customers have also changed the way they buy or want to buy a car – It's all about online sales

Customer behavior created by digitization



1) 18-34-year-olds

To get a better understanding of the potentials and pitfalls of online car sales, we asked representatives of leading market players

Potential and pitfalls of online sales of cars

"Today, at least **one in every two car purchases begins online**; in 2020, it will be nearly 100%."

CEO, meinauto.de

"Customers demand a **one-stop-shop solution**; otherwise you risk losing the customer."

CEO, Sixt Neuwagen

"In the online world, market shares will be gained by those focusing on **credibility, transparency and service orientation**. This applies to the sale of both new and used vehicles."

CEO, Mobile.de

"Years ago, a customer went to the dealer 4-5 times before the purchase decision was made. Today, it is only 1-2 times. **In the future, the dealer's role in the purchasing process will be focused on services around the purchase** (e.g. used car trade-in, financing, accessories)."

CEO, meinauto.de



"OEMs strive to offer more online sales capabilities but face major challenges in offering a **seamless process**, especially at the interface between the online and offline world."

VP Corporate Development, TRUECar

"The online store targets **customers who don't intend to haggle on price** but who have a focus on convenience."

Mercedes spokeswoman

"In the future, customers will only spend an hour at the dealership buying a car. The **majority of the buying process will take place online**."

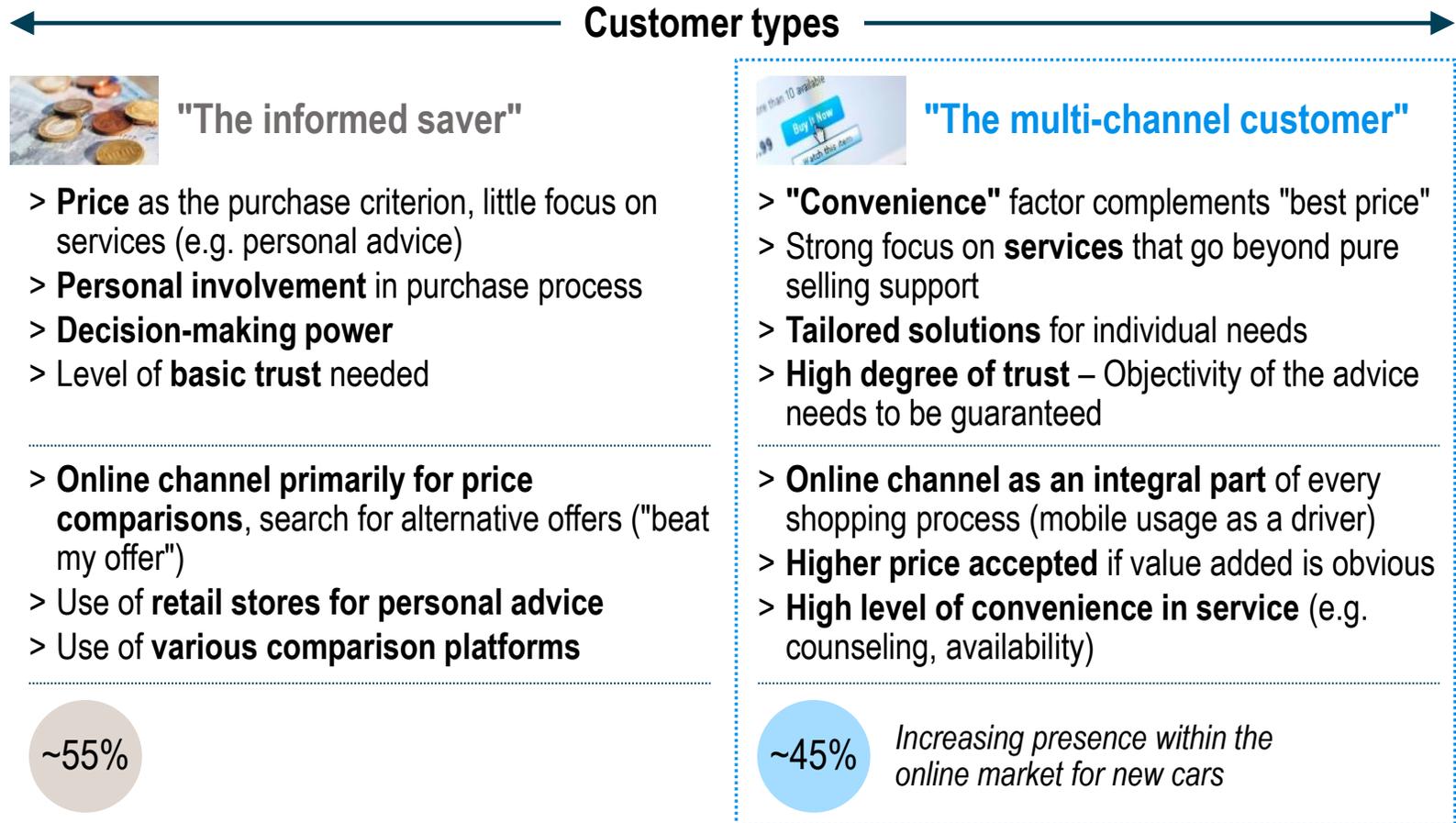
VP Corporate Development, TRUECar

"Customers should have the **same experience** when using tablets at home as they do when going shopping offline."

Sales Director, Daimler AG

Today, the focus of online sales is more on customers who haggle on price – One in two customers, however, focus on convenience

Opposing types of customers within the online market for new cars



1) According to survey with n = ~ 250

Regardless of the type of customer, several general rules need to be considered when it comes to online sales of cars

Ranking of success factors in online sales¹⁾



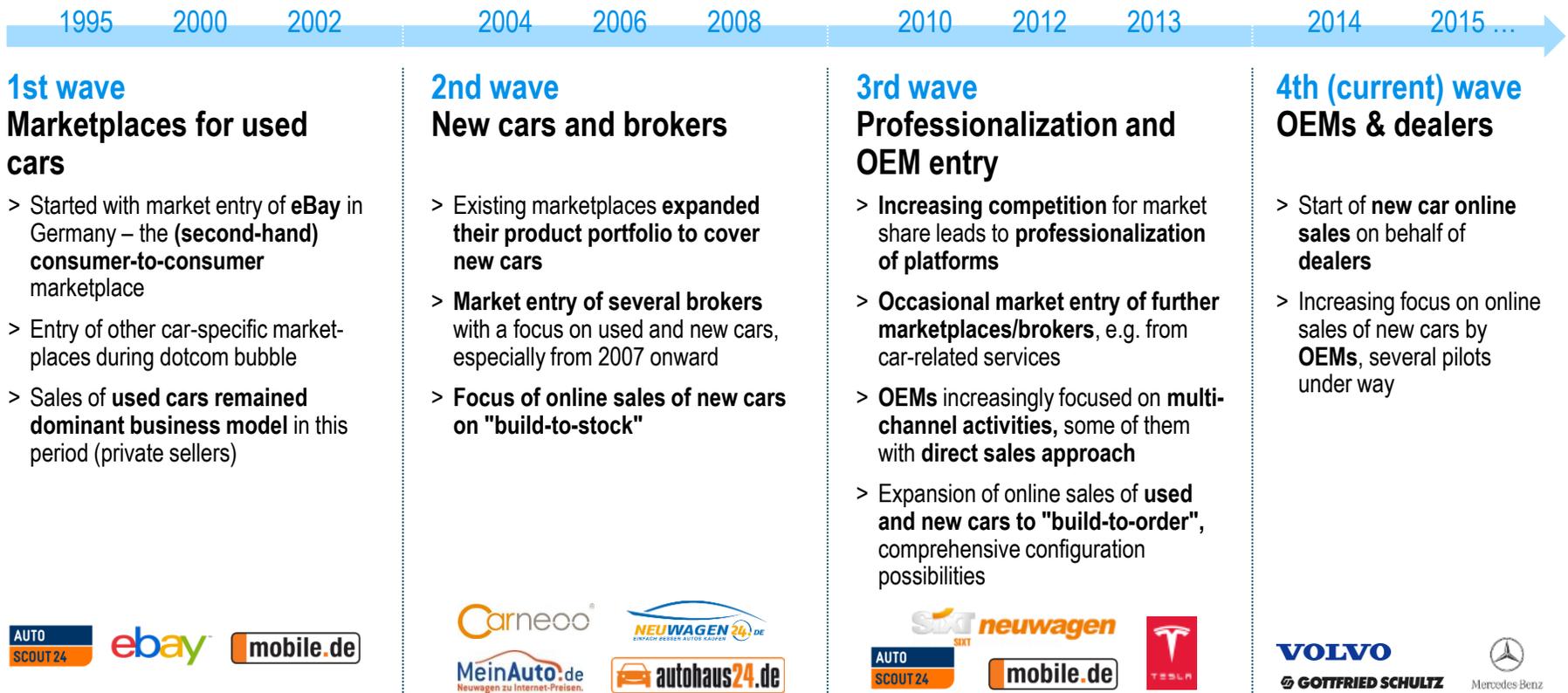
1) Ranked according to survey with n = ~ 250 2) Not a result from the study; insight from expert interviews

B. Where we are today:
Snapshot of the
German market and its
players



Importance of online platforms for sales of new and used cars has steadily increased – OEMs are currently entering the market

Market development of online car sales in Germany



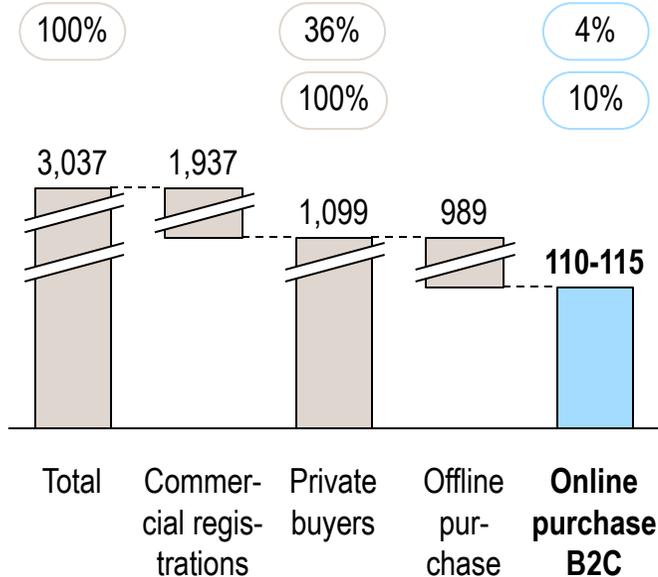
Leading platforms expand product portfolio from used to new cars

Today, 10% of all new passenger cars within the private segment are already bought online – Volumes will double by 2020

Market volume in Germany, 2014

Top-down approach

New passenger car registrations Germany
[#, '000, 2014]



Online sales of new cars in 2014 [#]

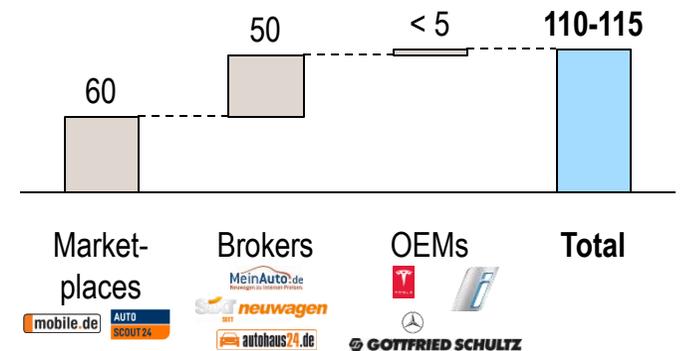
~115,000

Definition of online sales:

Car purchase was substantially initiated online, incl. forwarding customer to dealer, online request for consultation

Bottom-up approach

Market volume of relevant market players
[#, '000, 2014]



Forecast – Online sales of new cars in 2020: ~ 250,000

The market is split between four archetypes of online sellers – OEMs and dealers, and now special vendors as the latest to appear

Archetypes of online sellers

	Vendor structure			
	Multi-brand			Mono-brand
	1 Marketplace	2 Broker	3 Special concept	4 OEM & dealer
Best known market players	 	 		 
Business model	<ul style="list-style-type: none"> > Marketplaces for comparing prices of different dealers (based on configuration, budget, etc.) > Traffic-driven (no interaction in transaction) > Revenue pools: <ul style="list-style-type: none"> – Insertion fees (key) (~70%) – Cross-selling²⁾ (~10%) – Advertising (~20%) 	<ul style="list-style-type: none"> > Mediator between authorized dealers and end customer in selling process > Transaction-driven (involvement in sales process) > Revenue pools: <ul style="list-style-type: none"> – Sales commission (~80%) – Cross-selling²⁾ (~10%) – Advertising (~10%) 	<ul style="list-style-type: none"> > Online retail car leasing platform as one-stop-shop solution > Transaction-driven (involvement in sales process) > Revenue pools: <ul style="list-style-type: none"> – Sales commission (~80%) – Cross-selling²⁾ (~10%) – Advertising (~10%) 	<ul style="list-style-type: none"> > Online store as central point of interaction within the multi-channel sales approach > Revenue pools: <ul style="list-style-type: none"> – Vehicle sale (~95%) – Cross-selling²⁾ (~5%)
Process & support	<ul style="list-style-type: none"> > Marketplace provides customers with full transparency on current offers > No additional support/advice in the sales process > Only customer interacts with dealer 	<ul style="list-style-type: none"> > Brokers choose best offer for customer > Online/offline support during sales process (e.g. contract preparation) > Contract closed directly with dealer, no broker involved 	<ul style="list-style-type: none"> > Brokers choose best offer for customer considering the leasing and financing options available from the seller > Online/offline support during sales process until closure > Contract closed with broker 	<ul style="list-style-type: none"> > Depending on platform, customers can configure a new car (e.g. Tesla) or search for built-to-stock vehicles (e.g. Mercedes) > Mostly the dealer has the key role – Support function and contracting party¹⁾
Market share of online sales (2014)	~50%	~45%	< 5%	

1) Does not apply to direct sales model (e.g. Tesla) 2) Mainly financial products

Leading marketplaces have an almost identical market presence – Mobile.de boasts broader coverage in terms of unique visitors

Industry leaders in the 'marketplace' category

		AUTO SCOUT24	mobile.de
General information	Ownership	Scout 24 group	eBay
	New car listings [#, Sep. 2015]	~190,000 ¹⁾ (total: 2.4 m)	~150,000 (total: 1.4 m)
	Unique visitors [#, m per month, Aug. 2015]	12.3	34.9
Offer attractiveness	Product portfolio		
	New cars	✓	✓
	Used cars	✓	✓
	Parts & accessories	✓ via DAPARTO	✓ via eBay
	Others	✓ Motorcycles, commercial vehicles	✓ Motorcycles, commercial vehicles
	Service portfolio		
	Financing and leasing	✓] Integrated service offer by various partners (e.g. Check 24)	✓] Integrated service offer by various partners (e.g. Check 24)
	Insurance	✓]	✓]
	Handover/delivery	✗ Not part of business model	✗ Not part of business model
	Aftersales	✓ Integrated own workshop service portal	✓ Workshop service run by eBay Motors
	Price		
	List price	✗	✗
	Retail price	✓	✓
Online process attractiveness	Customer service		
	Hotline	(✓) Only for defined business hours	(✓) Only for defined business hours
	E-mail	✓	✓
	Others	✗	✗
	Functionalities		
	Need analysis	✓ Via MotorAgent	✓ Via MotorAgent
	Alternative suggestions	✓ Part of business model	✓ Part of business model
	Test drive request	✗	✗
	Trade-in	✓ Integrated registration link to easyautosale	✗

1) Including cars with one-day registration

Leading brokers have similar product and service portfolio – Several additional services offered via partnerships, not always integrated

Industry leaders in the 'broker' category

General information	Ownership	Several shareholders (e.g. Holtzbrinck Ventures)	Sixt SE/Autobild.de
	Unique visitors [# , m per month, Aug. 2015]	0.27	0.34
Offer attractiveness	Product portfolio		
	New cars	✓	✓
	Used cars	x	x
	Parts & accessories	x	x
	Service portfolio		
	Financing and leasing	✓ Integrated service offer by various partners (e.g. Check 24)	✓ Integrated service offer by various partners (e.g. Check 24)
	Insurance	✓ Home delivery possible at additional cost	✓ Pickup at Sixt leasing stations or home delivery at additional cost possible
	Handover/delivery	✓ Partnership with Easyautoservice.de for workshop services	✓ Partnership with ATU, e.g. for special offers with tires
	Aftersales	✓ E.g. car registration	✓ E.g. customer can submit a cheaper offer and autohaus24 will try to find even better offers
	Others		
	Price		
	List price	x	x
	Retail price	✓	✓
Online process attractiveness	Customer service		
	Hotline	(✓) Only for defined business hours	(✓) Only for defined business hours
	E-mail	✓	✓
	Others	✓ Branch offices, desktop sharing	x
	Functionalities		
	Need analysis	✓	✓
	Alternative suggestions	✓ E.g. from local dealer	✓ E.g. from local dealer
	Test drive request	x	x
	Trade-in	✓ Integrated service with DEKRA partnership	✓ Integrated service with DEKRA partnership

Sixt Neuwagen as online retail car-leasing platform – One-stop shop with online order inquiry and several additional services

Industry leaders in the 'special concept' category



General information	Ownership	Sixt Leasing AG SE
	Unique visitors [# , m per month, Aug. 2015]	0.18
Offer attractiveness	Product portfolio	
	New cars	✓
	Used cars	x
	Parts & accessories	x
	Service portfolio	
	Financing and leasing	✓ Part of business model – Customer chooses between classic leasing financing and vario financing ¹⁾ – Contract is closed with Sixt
	Insurance	✓ Integrated offerings possible
	Handover/delivery	✓ Pickup at Sixt leasing stations or home delivery at additional cost possible
	Aftersales	✓ E.g. flat-fee maintenance service
	Others	✓ E.g. follow-on financing, 24h assistance in case of vehicle breakdown
	Price	
	List price	x
	Retail price	✓ High discounts due to large order volume by Sixt
Online process attractiveness	Customer service	
	Hotline	(✓) Only for defined business hours
	E-mail	✓
	Others	x
	Functionalities	
	Need analysis	x
	Alternative suggestions	✓ Customer can decide to take a similar dealer car in stock
	Test drive request	x
	Trade-in	✓
	Others	✓ Online transmission of damage claim, information on delivery time, workshop search, etc.

1) Option to buy vehicle after the contractual period

Online sales an essential part for premium OEMs within their multi-channel approaches – Maturity still differs on levels of integration

Industry leaders in the 'OEM' category

				
General information	Ownership New car listings [#, Sep. 2015] Unique visitors [#, m per month, Aug. 2015]	Tesla Motors n.a. n.a.	BMW AG n.a. 0.15 (general BMW website)	Daimler AG < 100 n.a.
Offer attractive-ness	Product portfolio New cars Used cars Parts & accessories	✓ Only built-to-order ✓ x	✓ Only built-to-order x x	✓ Only built-to-stock for A, B, CLA and CLS models (✓) Separate website, search of DMS ✓ Via Mercedes me portal
	Service portfolio Financing and leasing Insurance Handover/delivery Aftersales	✓ x ✓ Via Tesla Service Center (✓) Offerings limited to chargers	✓ ✓ ✓ Via BMW dealers, mobile agents x	✓ Online leasing contracts only ✓ ✓ Via dealers, mobile agents ✓
	Price List price Retail price	✓ No price negotiation and discounts x	✓ x	n.a. - leasing offerings n.a. - leasing offerings
Online process attractive-ness	Customer service Hotline E-mail Others	✓ 24/7 call center ✓ ✓ Call back option from product specialist	(✓) Only for defined business hours ✓ ✓ Call back option, BMWi Stores	(✓) Only for defined business hours ✓ ✓ Mobile consultants, live chat, call back option, Mercedes me stores
	Functionalities Need analysis Alternative suggestions Test drive request Trade-in Others	x x ✓ ✓ Tracking of delivery time in customer portal, car registration service, document upload	x x ✓ ✓ Tracking of delivery time in customer portal	x x ✓ ✓ Tracking of delivery time in customer portal, online order BMW i Wallbox installation

Marketplaces offer the highest degree of transparency – Others have advantages in providing convenient shopping experience

Comparison of archetypes within the scope of existing offerings

Based on expert opinions

Success factors

Archetypes

	Marketplace	Broker	Special concept	OEM/dealer
 Transparency	 Very high number of car listings		 Customer is promised cheapest price, comparison difficult	 No comparison of prices, limited selection
 Trust				 Original source with highest trust
 Ease of use				
 Seamless integration	 Additional services not always integrated	 Additional services not always integrated		
 Services		 Several additional (integrated) services	 Several additional (integrated) services	
 Flexibility	 No restrictions on scalability			
 Main target group	"The informed saver"	"The multi-channel customer"		

○ Low/not met ● High/met in full ● Most positive attribute ● Most negative attribute

OEM example: BMW has a central platform for online sales in which dealer, central systems and processes are integrated

Example: BMW eRETAIL

Success factors

Archetypes

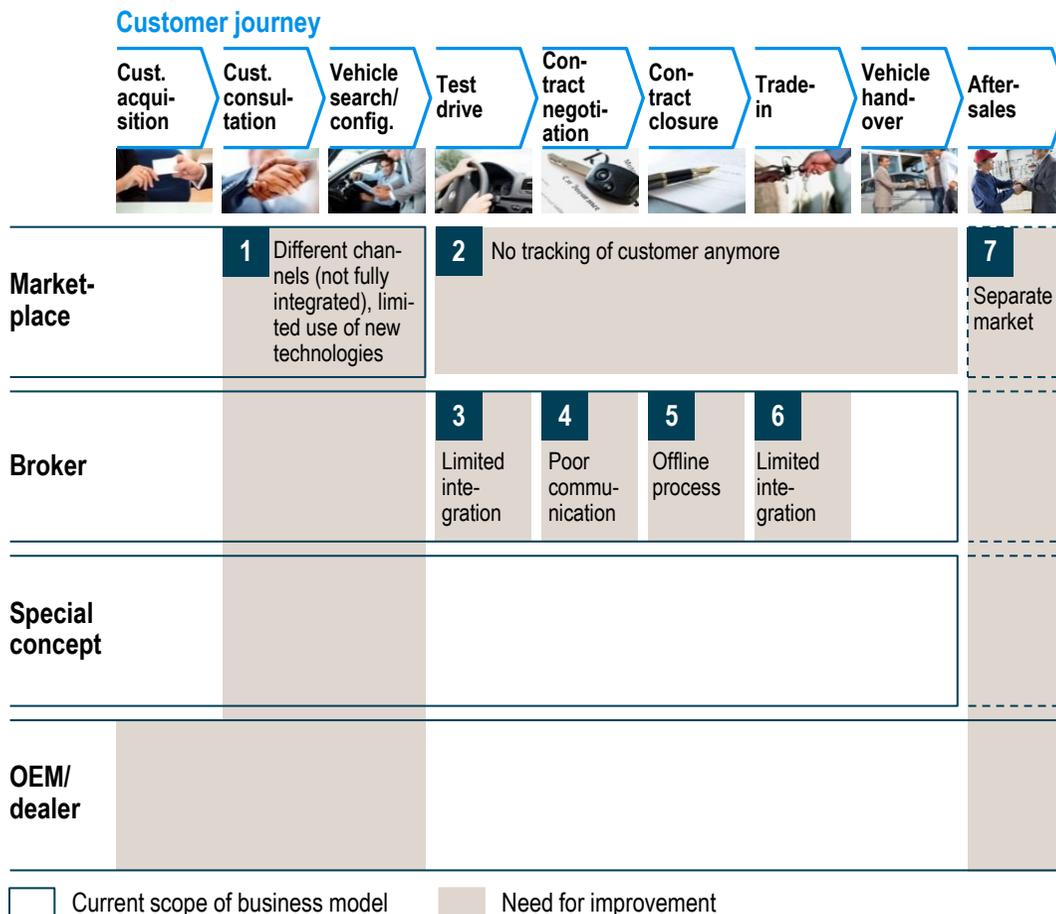


OEM/dealer

Success factors	Archetypes	
 Transparency	<ul style="list-style-type: none"> > Central platform displaying dealer and NSC new car stock > Possibility to initiate and finalize leasing/financing process online > Matching of stock cars 	✓
 Trust	<ul style="list-style-type: none"> > Customer is linked to the dealer via BMW 	✓
 Ease of use	<ul style="list-style-type: none"> > Intuitive design, clear structure, several support functions 	✓
 Seamless integration	<ul style="list-style-type: none"> > Solution integrated with central systems (e.g. digital) and processes > Seamless linkage from digital configurator to preferred dealer 	✓
 Services	<ul style="list-style-type: none"> > Variety of channels for sales support (chat, call back, ...). > Dealer communication platform (incl. online negotiation, document upload, etc.) > Online shop capabilities (e.g. 'buy' button) > Convenient online services (online test drive booking tool option to receive a first non-binding offer online for a used car, online support on product consultation) 	✓
 Flexibility	<ul style="list-style-type: none"> > Flexible and scalable central platform 	✓

Nevertheless, the convenience factor for customers is still limited – Customer journey not entirely integrated in a seamless model

Pitfalls within the customer journey today



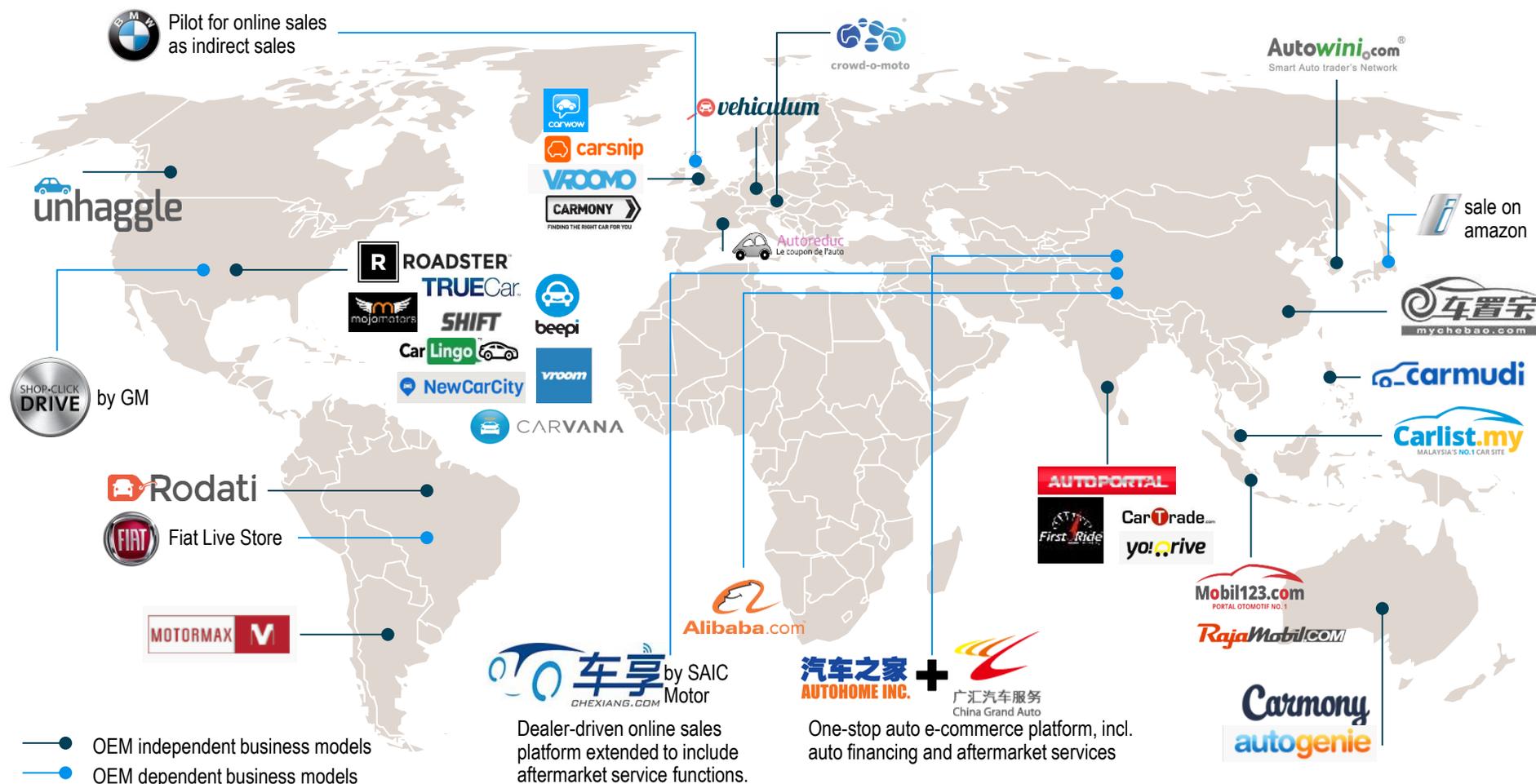
- 1 Marketplace specific:**
 - > Customer needs to proactively approach the dealer
 - OEM specific:**
 - > No connection between offline, mobile and virtual formats/touchpoints
 - For all:**
 - > Limited real-time face-to-face consultation (e.g. video chat with product expert)
 - > No visual support in the configuration process – Difficult for the customer to imagine the configured car (e.g. the look and feel of leather)
-
- 2** Scope of business model ends, customer is lost within the journey, e.g. for further cross-selling, data gathering
 - 3** Limited integrated offerings, offerings do not fit with configuration – Risk that customer may not enter journey again, no conversion; Demo car often does not match configuration
 - 4** Lack of real-time communication – Time lag within ordering process
 - 5** Mostly offline process due to legal barriers, e.g. no acceptance of online signature by OEM
 - 6** Not fully integrated, left to customer's initiative to organize car valuation, etc. – Limited convenience
 - 7** Lack of integrated, tailor-made aftersales services

C. What the future brings: New entrants and implications



Online sales of new cars as a global phenomenon – New business models are emerging everywhere, especially in the US

New business models on a global level (selective examples)



New business models are revolutionizing online sales of new cars in different ways – Price and convenience seekers are targeted

Examples of new business models

	New cars		New and used cars		Used cars
	ROADSTER™	<i>Carmony</i>	TRUECar™		
	<ul style="list-style-type: none"> > Comprehensive car buying service starting from finding the vehicle until handover and final paperwork (executed at customer's home within 20 minutes) > Roadster being the broker¹⁾ 	<ul style="list-style-type: none"> > Selling platform where dealers see which vehicles the customers are looking for ('wish list' based) – Dealers contact customers > After purchase, customer gets reward from Carmony in exchange for information 	<ul style="list-style-type: none"> > Data-driven online platform that enables users to obtain market-based pricing data on cars and to connect with TrueCar certified dealers > Customized offers for affinity group partners (e.g. American Express) 	<ul style="list-style-type: none"> > 'Follow a vehicle' based selling platform > Customers receive alerts any time prices change, cars are sold or new cars that match their search are added 	
Success factors	Transparency	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	Trust	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Ease of use	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Seamless integration	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Services	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Flexibility	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

1) Through subsidiary BuySideAuto LLC

While some business models aim at enhancing the entire customer journey, others focus on specific steps, especially vehicle search

Enhancement of customer journey

Customer journey



Value added for ...

... customer ... vendor

	Cust. acquisition	Cust. consultation	Vehicle search/config.	Test drive	Contract negotiation	Contract closure	Trade-in	Vehicle hand-over	After-sales	... customer	... vendor
ROADSTER™										<ul style="list-style-type: none"> > Personal concierge service > Fully integrated services 	<ul style="list-style-type: none"> > High conversion rate > High potential for cross-selling
Carmony										<ul style="list-style-type: none"> > Convenient, reactive car search > Extra cash 	<ul style="list-style-type: none"> > Transparency on sales closure > Customer/market data > Leads
TRUECar.										<ul style="list-style-type: none"> > Full price transparency > Pricing engine based on zip code > Customized offers 	<ul style="list-style-type: none"> > Data, data, data! > Allows for different prices in separate markets > Leads
										<ul style="list-style-type: none"> > Price transparency > Convenient, reactive car search 	<ul style="list-style-type: none"> > Market data > Potential for cross-selling (customer stays on platform to receive new offers)

Area of action

Food for thought: New entrants indicate where we might be heading in the future – Time to enhance existing business models

Customer journey tomorrow

Customer journey

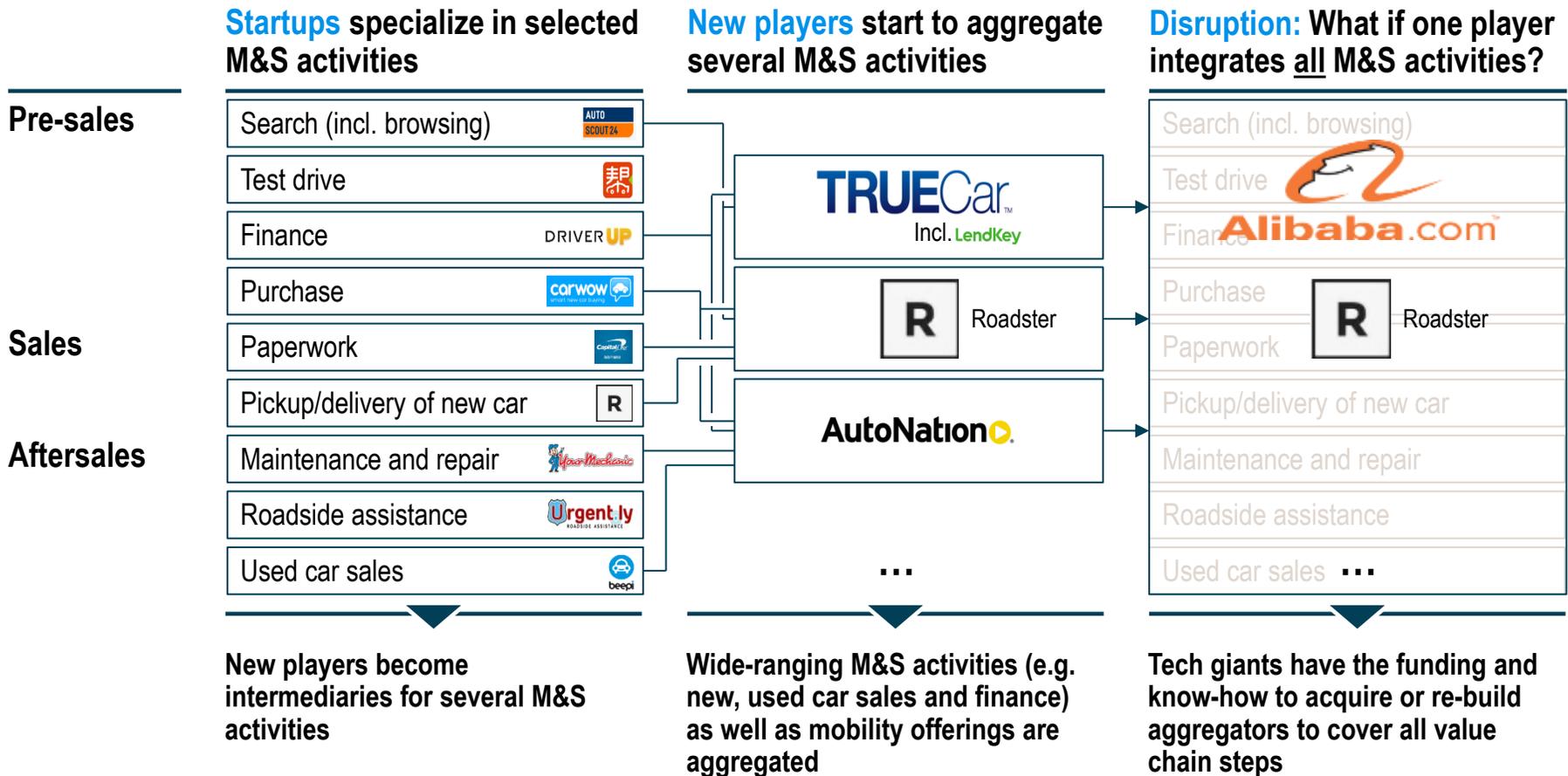


Marketplace	<p><i>Marketplace specific:</i></p> <ul style="list-style-type: none"> > Introduction of reactive search (e.g. via wish list, "likes") <p><i>For all:</i></p> <ul style="list-style-type: none"> > Extensive follow-ups on customer (e.g. satisfaction, prices paid) > Additional services that can be booked via marketplaces, e.g. organization of home delivery, registration service 						<ul style="list-style-type: none"> > Aftermarket service functions (booking, reminder, etc.)
Broker	<ul style="list-style-type: none"> > Use of new technologies (e.g. video chat, 3D configurator) > Integration of product experts instead of pure selling personnel 		<ul style="list-style-type: none"> > Fully integrated, digital ordering and negotiating process 	<ul style="list-style-type: none"> > 'Buy now' button, incl. credit check and billing process 	<ul style="list-style-type: none"> > Concierge service (e.g. vehicle valuation at home) 		<ul style="list-style-type: none"> > Registration service > Collect-return for garage services
Special concept	<ul style="list-style-type: none"> > Send home 3D sample of configured car, selected material for interior <p><i>OEM specific:</i></p> <ul style="list-style-type: none"> > Stable, systematic, personalized linkages between the various selling formats 			<ul style="list-style-type: none"> > Tracking of delivery time 			
OEM/dealer							

 Current scope of business model  Enhanced/additional activity (may include enhancement of current business model)

The next stage: Digital player setting up an aggregator business that consolidates all vehicle-related demand, incl. aftersales, FS

Aggregator – Overview



Aggregation of major M&S activities by a digital player would result in a significant loss of customer relationship for OEMs

Aggregator – Implications

Disruption: What if one player integrates all M&S activities?

Implications

Search (incl. browsing)
Test drive 
Finance 
Purchase  Roadster
Paperwork
Pickup/delivery of new car
Maintenance and repair
Roadside assistance
Used car sales ...

Tech giants have the funding and know-how to acquire or re-build aggregators to cover all value chain steps

Demotion to supplier and loss of sovereignty

Loss of customer access

Loss of emotional (brand) relationship with customer

New competitor offers revolutionary customer experience

Customer decision is highly influenced by third parties – significant loss of influence by OEMs

We look forward to hearing your comments and having some interesting discussions with you



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