SELECTED FACTORS DETERMINING CHANGES IN AUTOMOTIVE BUSINESS

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INTRODUCTION

The increasing competition among OEMs (Original Equipment Manufacturers) and dealers, combined with a shift to smaller (and in most cases also less profitable) models, have brought dealer margins down. The two factors influencing whether a person will buy a particular car are: the features of the vehicle (such as safety, reliability, styling, and performance) and the customer experience of buying (owning). In times of increasing saturation in developed markets (such as Europe and the US), automotive OEMs and dealer groups have started to rigorously restructure, consolidate, and improve their dealership networks by implementing new processes and standards. The rise in mobile technologies and social media is redefining interaction and communication patterns, digitization is revolutionizing the sales and service process. To growth automotive business, the key will be to transform today’s dealer network into a profitable, modern, multi-format sales channel that combines the opportunities of the online world with the strengths of the traditional dealership channel.

This article focuses on analysis how the global changes can influence the increase of business activities in automotive sector. The analysis aims to highlight that Internet and connected car services are becoming more important tools to support automotive retail.

To prepare this article, it was necessary to analyse relevant documents that were published from reputable institutions, mainly carried in online version. The interpretations of information presented in this article are based on the combined data set of many published papers on global scale. Primary data was obtained through mapping of different reports and analyses of studies, based on using the methods of collection, comparison, induction, deduction and synthesis of knowledge.

1 SOME EMERGING TRENDS INFLUENCING AUTOMOTIVE MARKETS

The stagnation in Europe, globalization of sourcing and production, the regulatory demand for new environmentally-friendly propulsion engines or connecting vehicles to multi-modal mobility systems – those are just a few of the stimuli fundamentally changing the automotive industry today [14].

The driving forces to cars market and opportunities are generally [15]:

- Aging population: the proportion of people aged 65 and above will significantly increase over the coming decades and senior citizens play increasingly important role in mature markets;
- Technological progress, Internet and social media: Internet-capable, ultra-mobile devices will significantly change buying behaviour and increase the transparency and information level;
- Rising energy prices: the steadily rising cost of individual mobility demands new types of transport and logistics solutions;
- Change of social and moral mindset: customers increasingly demand sustainable, healthy and environment-friendly solutions for transport.

Other challenges will shape the car industry into the future; according to the survey [5] it can be noted:

- Customers: the top priority for today’s car buyers is a longer lasting vehicle (enhance vehicle lifespan) with low gasoline consumption (fuel efficiency) and active safety systems;
- 47 % of respondents consider use of alternative fuel technologies as critical to consumers’ purchase decisions (interestingly, that went down from 70 % in 2009);
- 54 % believe under-25-year-olds do not wish to own a car; 46 percent say the same is true for over-50s;
- Globalisation: the emerging nations (China, India, Brazil, a.o.) offer the best hope for expansion, as many traditional automotive markets continue to decline (mature markets are saturated, while emerging markets are rising in importance);
- 71 % expect online dealerships to be important and 63 % view multi-brand dealerships as a successful model.

New conditions are providing new opportunities for the automotive business.
1.1 **AFTER-SALES ACTIVITIES**

The future of the automotive industry lies in after-sales. The growing number of cars on the road coupled with their higher average age confirms the importance of the after-sales business [1]. The after-sales business is very profitable, e.g. after-sales services generated approximately EUR 30 billion in 2012 in Germany alone [4]. This profitability is attracting a growing number of market players: manufacturers, suppliers, parts wholesalers, authorized and independent repair shops, repair shop chains, insurance companies, automotive banks, mobility services providers and Internet platforms. The after-sales player that best knows its potential customers can put together optimal product packages and accurately design its communication. Micro-marketing with a service offering tailored to each individual customer would be the ideal solution. The first step on this path is an in-depth understanding of customer needs, achieved through detailed segmentation. Customer service is of critical importance for the overall brand experience and driver satisfaction. Post-purchase there is a host of crucial customer touch points, and this is where manufacturers earn the loyalty of their customers. This is when customers decide to return to the same brand for their next car – or not [4].

For the car buyer, “service” means customer care – not just in the repair shop, but also in the showroom, during the sales process, and through pre- and post-sales communication. In this larger context, service begets trust, and trust grows loyalty. The “loyalty” means two types of consumer behaviour: the repurchase of a brand or model and the purchase of another car (any brand/model) from the same dealer [6].

OEMs and dealers want to communicate with the buyer after a sale for many reasons [1]:
- to provide vehicle specifications through owner’s manuals and quick reference guides;
- to inform the owner about recalls or service schedules;
- to build brand awareness through newsletters and magazines;
- and to develop a relationship with the customer through offers, promotions, events, and other activities.

The channels preferred for post-sale communication are most frequently [7]:
- Brochures / information about the vehicle
- Alerts about special sales, offers, promotions, etc.
- Service reminders
- Alerts and information about vehicle or accessory recalls
- Detailed post-service report and follow-up by dealer
- Post-test drive survey
- Welcome pack after purchase
- Customer satisfaction survey after purchase / service
- Personalized communication; Invitation to exclusive owners’ clubs; Invitations to special events, open house days, etc.
- Brand magazine; Newsletters.

Direct communication with customers need to reflect each one’s preferences. OEMs and dealers should collaborate on developing and implementing best practices for lead management and for post-implementation monitoring.

1.2 **ENVIRONMENTAL IMPACT AND SOCIETY CHANGING**

The implications - congestion, pollution and the cost of owning a car are not sustainable. The factor most likely to influence consumers’ purchase decisions is environmental friendliness - demand greener vehicles [3]. The environmental issues are increasing in importance for consumers and legislators press on automotive manufacturers to reduce emissions from their products. As a result, the traditional powertrain is being modified and new engines are being introduced (that pair high performance with lower emissions) and the electrification of the powertrain is progressing at the same time. The urban consumers are most interested in vehicles powered by alternative fuels or advanced technologies (“green” vehicles) and other transportation solutions (such as carsharing) [11]. While alternative new powertrains will even speed up the pace of change, young urban consumers are challenging the very concept of car ownership (a trend calling demotorization). They call for new mobility services such as carsharing and carpooling, which are already experiencing rapid growth [15]. In some markets, new and emerging public policies (e.g. in the form of tax incentives, driving privileges, and special parking permits) are encouraging people to think in new ways about how they get from A to B [7].
According to study [13] the behaviour of automotive customers and the role of the car is changing; the advanced world is moving from car “ownership” to car “usership” and car turns from “status symbol” to “commodity”. New mobility concepts mean “non-buyers”, applied car sharing and new rental formats. Carsharing and integrated mobility businesses will become more popular.

Market studies [6, 13] show that the desirability of cars has fallen significantly among younger generations. The so-called ‘millennial’ generation of young adults appears less interested in traditional purchases (such as houses and cars), and the challenge for the main auto brands is to come up with a new way to meet their needs. While most young adults in the second millennium in their twenties aspired to owning a car, today's young people prefer car sharing (in all its forms) to having “their” car. This has significant implications for the whole automotive value chain, as presented fig. 1 [12].

**Fig. 1: The impacts of carsharing strategy to players in automotive**

| **OEM** | - can afford to wait for viable production batch sizes  
- can develop brand loyalty  
- can monitor car ownership trends at first hand |
| **Dealer** | - Shorter lead times and less inventory  
- Diversified revenue streams and financial security  
- Position in growing carsharing market  
- Dealerships become one-stop shops for car buyers/users |
| **End customers** | - Pay as you go  
- More eco-friendly mobility  
- Opportunity to test different cars for long periods of time |

*Source: author's adaptation according to [12]*

Carsharing and taking a new look at personal mobility are two areas that have come in for special attention. The unique person-to-person (P2P) carsharing business model is the concept based on moving away from traditional carsharing logic to one in which infrastructure needs are met by the vehicle manufacturers and dealers. In this model, vehicle owners who only use their cars some of the time would be able to sign up to a program affording them a preferential initial purchase price plus the opportunity to rent the car out within the OEM's P2P system during periods of non-usage [12].

### 1.3 THE INFLUENCE OF INTERNET ON AUTOMOTIVE CUSTOMERS

Today's consumers want it all: industry-altering technologies, green cars and alternative “ownership” options, and truly responsive personalization - more features and functions, more service and convenience, more information and choice.

The web is one of the most important contact points between OEMs and their clients. The Internet will play a greater role in providing customer information and dealer selling techniques [13]. New technologies have taken the customer much closer to a buying decision point before visiting the retailer. In the past, the only way to draw up a shortlist was to collect catalogues by visiting retailers. Today, via the Internet, the customer has often made product choices before entering the showroom. With car configurators, customers can specify their vehicles and have a good knowledge of the list price. Customers are doing more and more of their pre-purchase research online. Now the buyer comes with very precise questions based on a lot of insider information [3]. Before purchasing a car, the customers check OEMs and dealers websites, probe social media sites, as well as third-party automotive blogs and forums, looking for vehicle features and rating, reputations for fairness and customer care, drivers’ satisfaction levels, and other types of information. These websites should help consumers narrow their choice and make a decision by allowing them to compare vehicles and configurations, calculate and compare prices, and put together a customized “dream” car using interactive modelling tools. Actual online sales of new vehicles are rare because the car purchasing process is complicated and because almost all jurisdictions require the involvement of a dealer. The online sales models do not offer the “feel” of a “real” purchasing experience for customers. The main reasons to buy a car online are for a better price and a distant, for an easier and faster transaction. On the other hand the purchasing of parts (such as batteries, spark plugs, seat covers and tires) and accessories online is strong [8].
The sources of information about purchasing the cars deemed important by the survey respondents [2]:
- Car dealer
- Vehicle manufacturer websites
- Dealer websites
- Information websites/Independent car valuation services
- Family and friends
- Specialist motoring/automotive press
- Web forums, blogs or internet discussion groups
- TV / print advertising
- Auto shows
- Manufacturer or dealer social media page.

In this case, the power of the Web can be explain [9]:
- as a rich source of information;
- as a forum for trend setters, opinion-trackers, and consumers eager to share experiences;
- as a shopping mart where buyers can instantly compare products, prices, and service performance;
- and as a post-sales connection to customers.

The Internet and also connectivity will be an enabler for all retailing concepts presented in fig. 2.

Fig. 2: Future automotive retailing concepts

<table>
<thead>
<tr>
<th>Emotinality</th>
<th>Functionality</th>
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<tbody>
<tr>
<td><strong>FLAGSHIP STORES</strong></td>
<td><strong>HIGH LOGISTICS COST</strong></td>
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<tr>
<td>Exclusive stores in urban areas primarily focused on the emotional presentation of a selection of vehicles to strengthen the brand / product reputation and awareness (often directly owned by OEMs)</td>
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<tr>
<td><strong>VIRTUAL STORES WITH SALES AGENTS</strong></td>
<td><strong>LOW LOGISTICS COST</strong></td>
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<tr>
<td>Web-based stores offering new and used cars. Physical customer contact (e.g. for test drives, home delivery) is organized on-line and executed by mobile sales agents</td>
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<tr>
<td><strong>TRADITIONAL DEALERSHIP</strong></td>
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<td>Local places of sales focusing solely on new car sales in the easy selling period. Range of offerings is further extended to used cars, service and after-market parts in a hard selling environment</td>
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<td><strong>SUPER STORES</strong></td>
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<td>Very large outlets that focus on a high volume of transactions. Typically these outlets have large vehicle inventories, big showrooms and often have multi-brand offerings</td>
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Source: [6]

The core idea is closer direct engagement between vehicle manufacturers and end customers using sophisticated user-friendly technologies. Ongoing OEM/customer interaction would, however, quickly produce results that benefit not only production planning and forecasting, but also the vehicle manufacturers' brands and the development of the kind of vehicle technologies and features that customers want. Thanks to this direct contact, vehicle manufacturers too will be stimulated to drive greater synchronization throughout the business, particularly regarding inventories [8].

### 1.4 SERVICES ASSOCIATED WITH CONNECTED CARS

The emergence of “applets” in smartphones and tablets has changed expectations about usability and the customization of the user experience among consumers aged 30 and under. The introduction of multimedia interfaces in cars marked a first step in response to “appletization” trend [8]. The value of automotive electronics is rising; Internet connections and cloud services are becoming the norm, even in cars. Linking up cars with the Internet (“infomobility”) for car-to-infrastructure communication and ICT certainly offer enormous potential. Delivering services through the car – Internet radio, smartphone capabilities, information / entertainment services, driver-assistance apps, tourism information, and the like – is a promising area for future profits and differentiation. This current trend
allows players from other industries to enter the market with innovative business ideas - especially companies from the IT and communications sector [9].

The data required for customized offers is continuously improving. For instance, telematics can automatically notify the manufacturer to send a message directly to a car or smartphone, reminding the owners that their vehicle is due for an oil change and recommend the preferred dealer and special products or service packages at the same time [10]. The latter makes it possible to provide tailored offerings via location-based services (geo-marketing). OEMs can provide wireless software updates that continuously create an added value for the customer during the complete car ownership cycle strengthening the bond with the brand. In the future, telematics will also be the basis for predictive maintenance, where the driver is automatically warned ahead of a severe failure. This service can include recommendations how to mitigate the problem with the preferred dealership or in urgent cases the dealer close by, which provides a unique opportunity to avoid a negative product and brand experience [4].

For the OEM and dealers, a connected car and a smartphone app offers unprecedented possibilities to have one-to-one connections to owners and opportunities for direct, customer-specific, personal relationship and targeted marketing. The right communication, at the right time, would increase customer loyalty to the brand and the OEM/dealer franchise. Connected cars require data sharing, but consumers at all times are not willing to share personal and vehicle information with third parties, such as insurance firms, travel agencies, or advertising companies [15].

CONCLUSION

A number of global trends are shaping the automotive industry and business. The technology revolution of the Internet and mobile devices has also had an impact on automotive sector. The main findings resulted from analysis described in this article, according to cited research studies, can be summarized as following conclusion:

- “Connect me” technology enhances the ownership experience. Consumers expect their new cars to have all the technology they are used to everywhere else in their lives and of greatest interest are applications directly linked to vehicle safety. To get “connected car” features, buyers are willing to share data with OEMs and dealers, which presents potentially rich opportunities for closer relationships with customers.
- OEM and dealer websites are top sources of information for buyers. The first place a buyer is likely to find “my car” is on the Internet: the web gives consumers the power to compare, configure, calculate, and communicate. The social media influences consumers - positive and negative comments have an increasingly higher influence on what product people buy and where they buy it. While actually buying a car online is still relatively rare, consumers do purchase accessories and parts. Despite the digital transformation that is occurring in the automobile and other industries, the dealer is still an integral part of car buying.
- Loyalty to brands and dealers is on the rise (mainly in case of premium cars owners). Post-sale communications should be relevant and personal. The after-sales service is usually the fourth most important reason for choosing a vehicle (after reliability of the brand, price of the vehicle, and safety). The customer satisfaction in the service bay means likely future sales.
- “Green” is growing. Interest in hybrids and electric vehicles (EVs) is growing but OEMs, dealers, and governments need to work together to “instil” confidence in “green” vehicles and promote their benefits, both economic and environmental.
- The idea of not owning a car is getting some traction among urban consumers. The car sharing (and other alternatives) could mean cost savings.

This analysis offers a partial perspective on where the automotive business is headed. It is based on many published in-depth research studies.

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Abstract
Subject of this article covered some tendencies and impulses to future developing the automotive business. Submitted paper deals with the challenges of Internet and services based on car connectivity possibilities that offer to customers and also OEMs / dealers a number of advantages, e.g. direct marketing, customer-specific relationship. The scope of the article begins with more general issues of trends that influence automotive customers. At the introductory part of this article, it was identified key trends that can expect to significantly change the automotive retail: the growing number of cars on the road coupled with their higher average age confirms the importance of the aftersales business and also new mobility concepts apply car sharing and new rental formats. In the next section of this paper, it is formulated the reflection that the Internet offers considerable opportunities for OEM and dealers to support marketing. After that the focus is turned to a more specific analysis of services associated with car connectivity. Some services related with sharing of information can be considered as accelerators that support growth of automotive business performance. To growth automotive business, the key will be to transform today’s dealer network into a multi-format sales channel that combines the opportunities of the online world with the strengths of the traditional dealership channel.

Key words
automotive business, changes, trends, aftersales relationship

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L9, R4