Automotive finance

Automotive sales models are transforming

Unlock a future-proof ecosystem

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Executive summary

The automotive sales ecosystem is undergoing a transformation driven by advancements in electric vehicles (EVs), digital retail channels and evolving customer expectations. As original equipment manufacturers (OEMs) shift towards direct-to-consumer sales models, traditional dealerships must adapt their roles to maintain relevance in an increasingly digital world and keep capital working harder. Emerging sales models, such as the agent model, and investments in digital and EV-ready infrastructure are central to this shift.

Future of dealer and OEM sales models

Additionally, emerging threats from software-defined-vehicles (an ecosystem that continuously provides new value and experiences to users by updating features through software at its core, connecting both the inside and outside of the vehicle) could significantly shift the balance of power in the automotive industry by offering innovative software-supported models that bypass traditional dealerships entirely. To future-proof dealerships, a shift to services-based models, omni-channel engagement, flexible ownership models and data-driven decisions will become critical to maintaining ongoing customer loyalty.

This paper explores how OEMs, captives and dealerships are navigating the evolving automotive sales landscape, emphasizing the importance of customer experience, data integration and post-sale services in shaping the future. Strategic recommendations are provided to businesses through this transition by considering different capabilities of the business operating model.

1. Digital transformation of the sales model

- **Lead with digital:** Focus on digital innovation to improve the overall customer journey. The captive should lead the market through digital initiatives, which can be either white-labeled digital portals or integrated as APIs into the dealer front ends.
- **Customer experience platforms:** Integrate customer-facing platforms with tools that allow online car purchasing, financing options and real-time inventory visibility.
- **100% digital processes:** The captive envisions a future with 100% digital stock financing and sales. Dealers must therefore integrate digital finance options, ensuring that the entire purchasing and leasing process, including financing, insurance and maintenance, can be conducted online.

Example: A platform where customers can customize finance packages and explore flexible payment options in real time would align with the captive's goals of creating a seamless digital experience. This creates a more efficient, pleasant and convenient buying experience, encouraging customer retention.

2. Customer-centric financial products

- **Flexible leasing and finance options:** The captive offers various lease and finance products, including ownership through the customer or the captive, with a focus on flexibility and risk management. Dealers should align by promoting personalized financial products that cater to the specific needs of both private and business customers.
- **Multi-tier finance packages:** Dealers must offer a broad range of financing options, such as operational leases, consumer finance and residual value risk management, allowing customers to select what best suits their financial situation.

Example: A multi-tier leasing model where customers can choose between flexible terms (like short vs. long-term leasing, or residual value-based financing) helps expand market reach, particularly to the SME segment.

3. Collaboration between OEMs and dealers for stock financing

- **Efficient inventory and stock financing:** The captive's focus on stock financing of used cars and the collaboration between dealers and OEMs to ensure liquidity. Dealers must adopt models that enable efficient stock turnover and minimize vehicle depreciation risks.
- **Stock rotation programs:** OEMs and dealers should collaborate on programs that rotate high-demand vehicles across regions or brands to reduce inventory holding costs. This improves profitability by reducing time on the lot and ensuring that vehicles are sold when market demand is highest.

Example: An automated stock rotation program where dealers can access data on which vehicles are in higher demand and move inventory to those regions will help boost efficiency and liquidity. This reduces vehicle holding costs while supporting the broader regional allocation strategies mentioned earlier.

4. Expanding into multi-brand financing and dealer network

- **Multi-brand flexibility:** The captive's future vision includes extending flexibility and finance options to support different brands and segments, especially in the used car market. The dealer's sales model must reflect this shift by embracing multi-brand sales and financing.
- **Dealer consolidation and partnerships:** OEMs and dealers should expand their dealer network through strategic partnerships, allowing them to serve a broader range of brands under the same umbrella. This enhances their ability to cater to both the SME and larger corporate clients, as outlined in the captive's growth plan.

Example: Expanding the dealer network to offer finance packages across multiple vehicle brands ensures growth into the multi-brand dealership space. By offering flexible, brand-agnostic finance products, dealers can capture a larger market share.

5. Data-driven and automated internal processes

- **Data analytics and automation:** Aligning with the captive's goals for operational efficiency and growth means focusing on smart automation in customer journey processes. Dealers and OEMs should invest in automation for tasks like credit assessments, vehicle allocations and contract management to reduce operational costs and increase efficiency.

- **Real-time data integration:** Internal dealer systems should be integrated with finance platforms to allow real-time updates on loan approvals, inventory and customer interactions.

Example: An automated finance approval system where customers receive instant credit decisions during their purchase process. This reduces friction and accelerates the buying process, allowing for faster contract closure.

6. Profitability through pricing and risk management

- **Risk-adjusted pricing:** Pricing strategies must be aligned with the captive's goal of offering risk-adjusted finance products. Dealers can adopt dynamic pricing models that adjust based on market conditions, vehicle demand and residual value risks. Profitability for dealers is realized due to higher approval rates and deal flow – e.g., by adjusting the finance offers to suit different credit profiles, more customers can qualify for financing, increasing sales conversion rates. Similarly, dealers can charge higher rates for higher risk customers and offer competitive rates to lower risk borrowers.

- **Residual value-based leasing:** OEMs and dealers should offer leasing models that are flexible, allowing customers to adjust lease terms based on residual value forecasts or future resale prices. Instead of pricing leases based only on loan balances and interest rates, lease payments are structured around forecasted residual values. Lower monthly payments make financing more affordable, leading to higher adoption rates.

Example: A pricing strategy where lease payments adjust based on projected residual values allows both dealers and customers to share in the risks and benefits of depreciation management.

7. Post-purchase and service innovation: A new revenue stream

OEMs and dealerships must shift their focus from one-time sales to maximizing customer lifetime value (CLV). Post-sale services, such as over-the-air (OTA) updates, predictive maintenance and concierge services, provide opportunities to engage customers and generate additional revenue.

- **Post-sale focus:**
  - Charging solutions: Offering EV charging services, such as reservations and payment solutions, can address range anxiety and improve customer satisfaction.
  - Predictive maintenance: Leveraging data to predict vehicle maintenance needs can reduce service downtime and enhance customer loyalty.

8. Strategic recommendations

- Embrace a customer-centric approach: OEMs and dealers must work together to provide a seamless, customer-first experience that integrates online and in-store interactions.

- Invest in EV and digital infrastructure: To remain competitive, dealerships must prioritize investments in EV infrastructure and digital tools that enhance the customer experience.

- Build collaborative ecosystems: By integrating OEM and dealer platforms, the industry can ensure a consistent and unified experience for customers throughout the purchasing and ownership lifecycle.

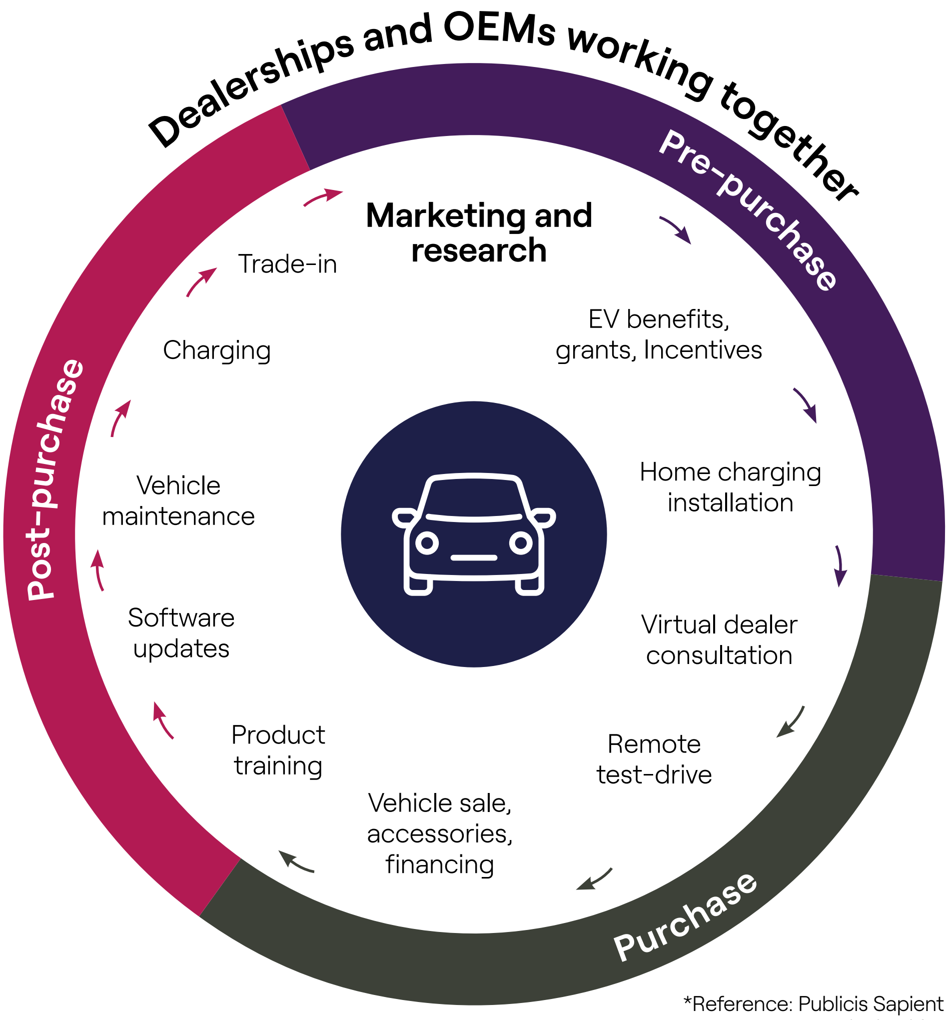
9. Business model transformation: Dealer and OEM

The future of automotive sales is a hybrid model that combines the benefits of direct-to-consumer capabilities with the consultative expertise of dealerships. Dealers who adapt to the new role of guiding customers through the EV and digital sales journey will remain essential in the sales ecosystem.

Meanwhile, OEMs that prioritize seamless omnichannel experiences and post-sale services will unlock new opportunities for growth and customer engagement. By embracing these changes now, both OEMs and dealerships will be well-positioned for long-term success.

Current Dealer Model

Pre-purchase	Purchase	Post-purchase
Marketing	Negotiation and sale	Accessory purchases
Lead generation	Financing	Maintenance
Test-drives	Accessory purchases	Repairs



*Reference: Publicis Sapient – '5 keys to transforming dealerships for an all-electric future'

Figure-1: Future dealer sales model

Indirect and direct/agent sales model at a glance	Direct sales model
"Letting dealers drive the deal." Automakers (like Toyota and Hyundai) sell vehicles to **independent dealerships**, who then sell to customers. Dealers set prices, manage inventory and negotiate directly with buyers. Think of it as a relay race: OEMs pass the baton to dealers for the final customer interaction.	"Cutting out the middleman." Automakers (like Tesla) sell **straight to consumers** via online platforms or owned stores. Prices are fixed (no haggling), inventory is centrally controlled and OEMs own the customer relationship end-to-end. It's a sprint: the manufacturer runs the entire race.

Key differences

- **Pricing power:** Indirect lets dealers undercut rivals; direct enforces fixed market retail prices.
- **Customer data:** Direct models capture 100% of buyer insights for personalized marketing; indirect shares data with dealers.
- **Costs:** Direct slashes distribution (no dealer margins), while indirect leverages dealers' local reach.

Considering the continued transformation of the automotive industry, established OEMs will need to change their business model from being a vehicle manufacturer to becoming a mobility provider. Dealers in the new world will become mobility hubs, embracing a broader spectrum of services that cater to the diverse needs of today's consumers. No longer just intermediaries, they could evolve into one stop shops for everything from vehicle purchases to subscription services, ride sharing options and electric vehicle charging. The direct sales/agent model represents the first step for OEMs on this much larger transformation. This is important for two reasons:

1. With competitive pressures rising, sales margins are likely to decline even further in the future, eroding revenues from traditional car sales.
2. With urbanization progressing, more than 50% of car rides will soon take place in metropolitan areas, where new mobility concepts, such as car sharing and ride hailing, are already booming.

In order to succeed under these new conditions, direct customer access and multi-channel orchestration are essential. It's evident that the traditional indirect sales model is reaching its limits. Dealers are often reluctant to support new services and offerings because they require high effort while generating comparatively little returns for the dealer or even cannibalizing the dealers' business. The agent model, however, grants OEMs full control over all sales channels and thereby provides the ability to push new services and offerings into the market. OEMs can use online sales channels to promote new services and offerings and can simultaneously shape dealer remuneration so that it provides incentives for dealers to support the OEMs' efforts.

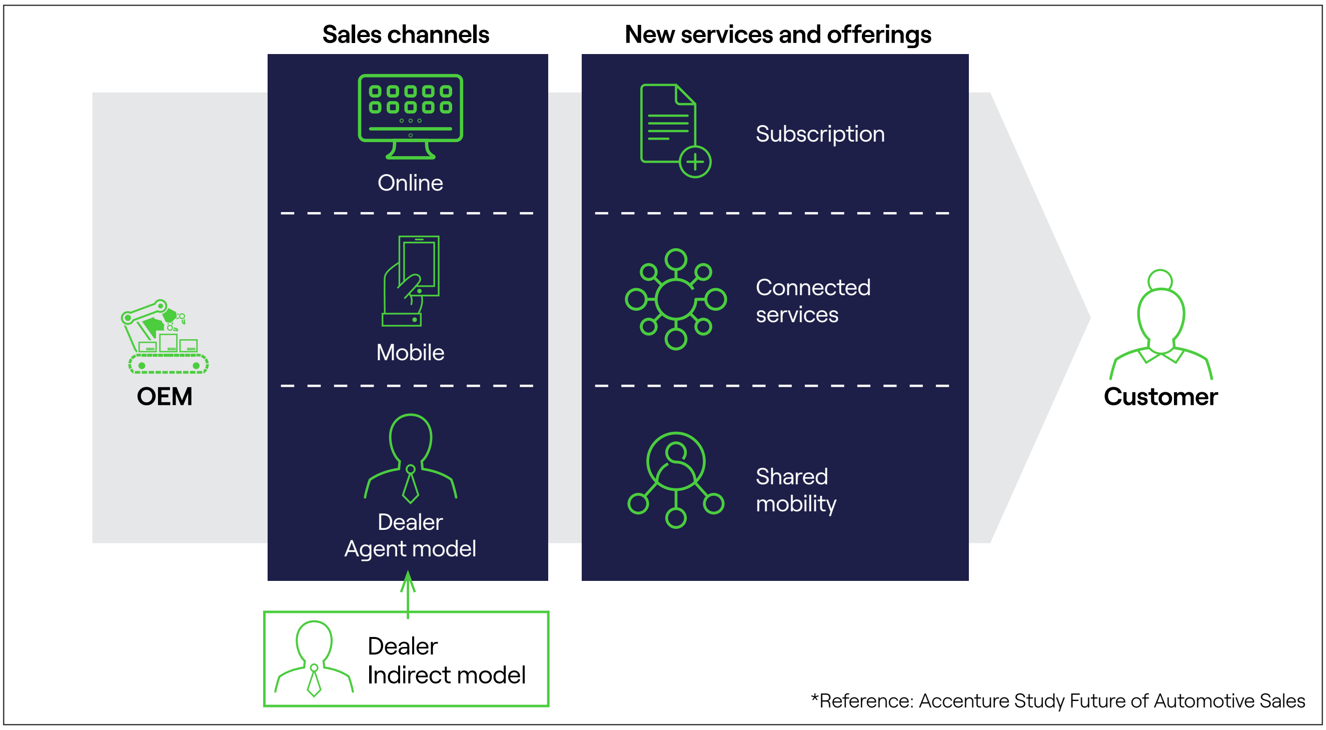


Figure-2: OEM business model transformation

10. Role of data analytics in the future sales models

Opportunities for maximizing profitability in the used car market.

- **Data-driven sourcing and pricing strategies:**
  Opportunity: Leveraging real-time market data allows dealers to optimize their sourcing and pricing strategies, minimizing costs and maximizing margins.

  Use case: Dealers can use dynamic pricing algorithms similar to those in the airline industry to adjust prices in real time based on supply-demand fluctuations. For example, adjusting bids at auctions based on real-time data on vehicle desirability, enabling dealers to avoid overpaying and capture additional margin opportunities.

  Margin impact: This can increase margins by up to 2%, translating to a $22 billion opportunity across the U.S. and Europe.

- **Optimizing vehicle allocation across regions**
  Opportunity: Dealers, especially large national or multi-regional ones, can use regional pricing differences to allocate inventory to areas where higher margins are achievable.

  Use case: A dealer can use real-time pricing and demand data to move vehicles across states or regions where they command higher prices. For example, a Texas-based dealer might move certain trucks to states like Arizona or New Mexico, where demand and prices are higher.

  Margin impact: This strategy has the potential to unlock a collective $1.2 billion in additional margin by leveraging cross-border vehicle allocation.

- **Enhancing frontline sales and decision-making**
  Opportunity: Embedding real-time analytics into the sales process can help sales teams make data-backed decisions, optimizing inventory management and pricing strategies at a local level.

  Use case: Sales teams can use real-time data to adjust local pricing based on competitor prices and regional inventory levels, improving their ability to negotiate and close deals faster while maximizing margins.

- **Product configuration optimization**
  Opportunity: OEMs can use data to improve future vehicle design by identifying high-performing trims and features that maintain residual value better.

  Use case: By analyzing data on how certain trims and features (e.g., roof rails, laser headlights) retain value over time, OEMs can optimize future vehicle models to include features that boost resale value and customer desirability.

  Margin impact: This ensures that OEMs maximize margins not just on initial sales, but also on resale and leasing contracts.

- **Residual value optimization**
  Opportunity: For auto finance companies, accurately forecasting residual values is critical, especially with the rise of EVs and fluctuating market conditions.

  Use case: By leveraging historical and real-time data on residual value trends for different trims and configurations, leasing companies can better manage vehicle selection and contract terms to minimize depreciation and loss.

  Margin impact: Optimizing residual values could unlock up to $20 billion across the U.S. and Europe.

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