



The future of automotive retailing

**The many roads to the
ultimate buyer experience**





To our readers

Imagine a business in which the top players invest billions to develop amazing new products, spend billions more on cutting-edge manufacturing capabilities and still more billions on sophisticated marketing—but never actually touch their consumers. And what if those consumers are deeply dissatisfied with how they are being served and crave a streamlined, easy-to use, transparent shopping experience that puts them in control?

This is the state of the U.S. auto retailing business today. And we all can agree that something has to change—and fast. The status quo is not working well for auto manufacturers. It is economically precarious for many dealers. And, most importantly, it turns customers off.

So, how can the auto industry delight the auto buyer of 2020 and beyond? A great deal has been written about how to reimagine car-buying as a purely e-commerce experience, with consumers researching, considering, comparing and completing purchases online. Voilà!

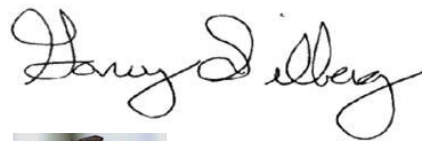
However, we think that's way too simplistic. Future car shoppers will be online, offline and omnichannel. Some will fixate on price and will scour the internet for deals. Some will be impulse buyers, who want to walk into a dealer and drive out in a new car. Many shoppers will enjoy the convenience of researching and choosing online, but may never make a deal without a test drive. Some want the human touch all along the journey.

In other words, there is no single car buyer. And, therefore, no single car-buying experience will satisfy. Rather, there are countless unpredictable paths that a broad array of consumers can—and will—follow and countless ways in which they can be served.

The complexity is mind-boggling. But it is also clarifying: nobody can be all things to all consumers in the future automotive market. So automakers, dealers and the other players in the auto retailing ecosystem have a massive opportunity. But they must focus strategically on the type of car buyers they can serve and look for where in the customer journey they can excel—or where they should partner and collaborate.

In this paper we look at the changing needs and preferences of car buyers and how automakers and dealers and retail platform developers can address them. We look at how newcomers to the market like Tesla are opening the door to direct sales and how disruptors are targeting every part of the customer journey—including the innovators who are taking on the massive used-car market. We also look at the pivotal role that dealer platform companies can play.

As we said five years ago, when we wrote *Me, my car, my life*, it's not just about mastering the new technologies—the winners in the automotive industry will be the companies that actually make life better for consumers.¹ Today, we believe this even more strongly. And we see that recasting automotive retailing around consumer needs is a sure way to make lives better.



Gary Silberg
*Partner and National
Automotive Practice Leader*

¹[Me, my car, my life](#), KPMG, 2014

The take-away

If reinventing auto retailing were as simple as reducing car buying to another online transaction, the challenge would still be massive, given the constraints of today's system. But the task is far more complex because all kinds of car buyers want to define their own online/offline journeys. Addressing their needs is the focus of this research. Our key findings:



The market is becoming far more complex.

There is no single archetype of a car buyer and no single route to delivering a great consumer experience. Car buyers have a wide range of needs and shopping preferences. The end-to-end online journey is only one choice—and one that only a minority of consumers might prefer. This means participants in auto retailing can focus on what they can do best and think carefully about where to play and when to partner.



Consolidation could alter the dealer-automaker relationship.

The dealer business will continue to consolidate, creating powerful national and regional players. These organizations will have resources to invest in data analytics and build multi-brand online showrooms to bring shoppers to their stores. They also could gain Walmart/Amazon-like buying power and dictate terms to automakers.



Direct sales are a thing.

Without a legacy dealer network, Tesla is showing that automakers can succeed in direct sales—and Tesla customers are huge fans. We expect Tesla and startups such as Rivian—and perhaps new foreign entries—to continue pushing the envelope on direct sales, striking at the foundations of the franchise system. Established brands with dealer networks are edging into direct sales with subscription programs.



Automakers have many opportunities.

Incumbent automakers have an opportunity to work with dealers to improve both the customer experience and dealer economics. They have the scale to provide the training and equipment dealers will need to sell and maintain high-tech cars. They can help dealers provide new ownership models, such as subscriptions and, with the data automakers collect on usage and performance, can enable predictive maintenance programs.



The online used-car market is exploding.

Nowhere in auto retailing has there been more disruption than in the used-car market. Companies like Carvana and CarMax offer a full range of digital services, including the ability to buy a car from an app—or sell one, rather than trading it in. The 40 million-unit market remains highly fragmented, so competition and innovation will likely intensify. The question is when these innovations cross over into new-car sales.



Platform players are a hidden force.

Behind the scenes, invisible to customers, are companies such as Reynolds & Reynolds, Cox Automotive and Roadster, which provide dealer management systems and also host manufacturer websites and provide e-commerce capabilities for dealers, and Cox operates car-shopping websites. These platform players are uniquely positioned to participate across the consumer journey and perhaps capture the most value.

Consumers and cars: A new relationship

A century after the rise of mass-market automobiles turned Americans into a nation of car owners and changed how they lived and worked, the consumer's relationship with the automobile has changed. Today, consumers are looking for new benefits from cars—and to avoid some of the drawbacks, such as the high cost of ownership. They still prize mobility, but increasingly they want it on their own terms.² Increasingly consumers are choosing ride-hailing or ride-sharing for some portion of their vehicle needs. And some of these consumers see fewer reasons to buy a car at all.

The new relationship extends to how consumers select and purchase cars. The internet has put critical information in the hands of consumers and that gives car shoppers power. And they are dictating terms: when they shop for

vehicles, they expect the same convenience and options that are on offer by other retailers. They want a choice of whether to buy, lease, subscribe or pay as you go.

When it's time to make a purchase, car buyers want what they get when buying other goods and services today. They demand transparency about what they're getting and what it costs. They want to feel that they are doing the choosing, not being sold.

Car buyers have learned to gather information from across the web and can skillfully map their own online/offline journeys, ranging from a full brick-and-mortar dealer experience to a "one-click" online purchase—and every possible hybrid in between. Yet they're still impatient for auto dealers and manufacturers to measure up to their expectations for a great car-buying experience.³

² 2015

³ For more on consumer perceptions of the retail experience, see [Will this be the end of car dealerships as we know them?](#), KPMG 2018

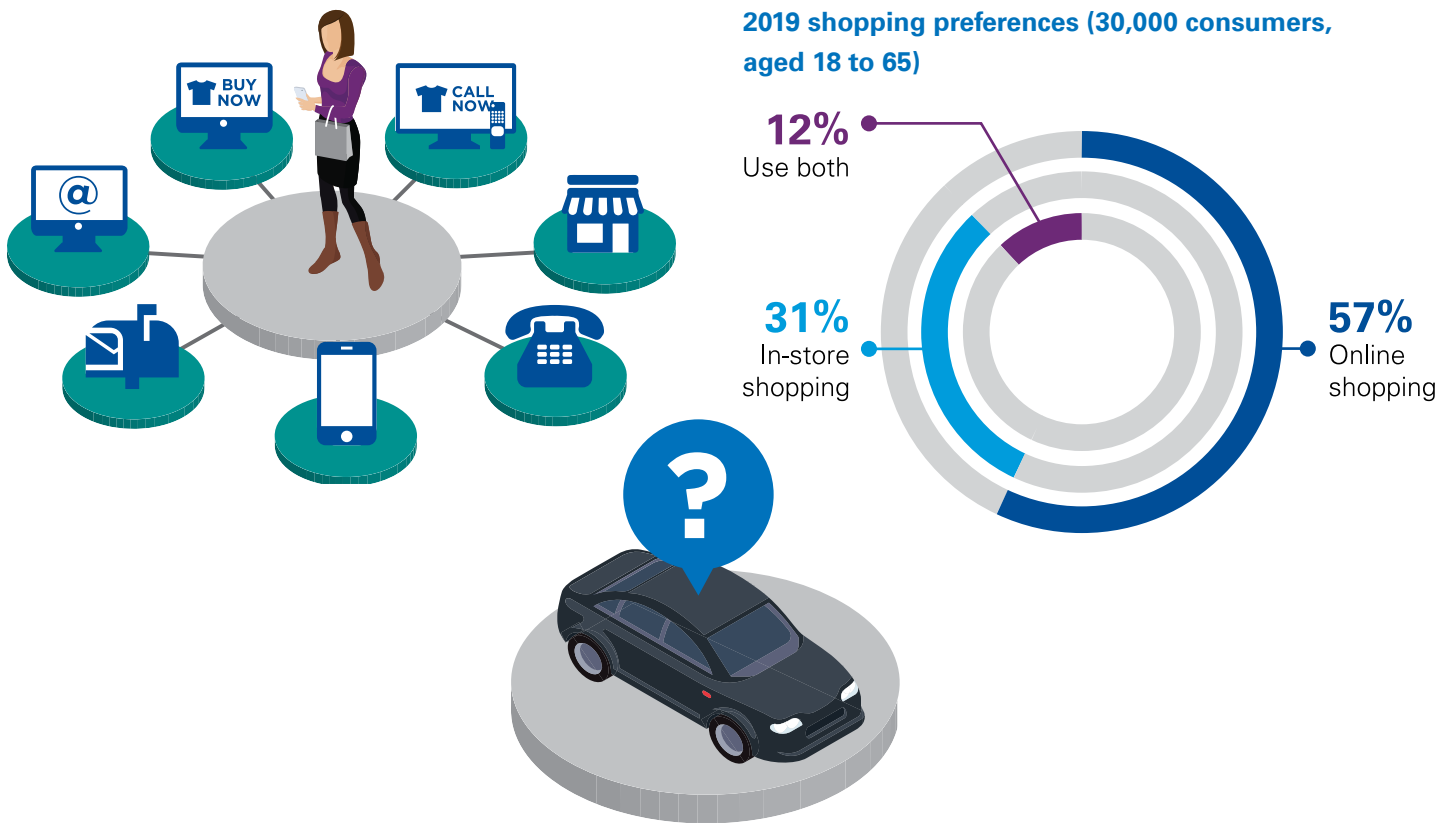


E-Commerce has already changed car shopping

After two decades of online shopping, consumers know how to shop online for everything from housewares to a gourmet dinner to life insurance. They take for granted price transparency, comparison-shopping, convenient checkout, and home delivery. When dealing with retailers, consumers expect a smooth omnichannel experience that takes place

partly online and partly in-store (Exhibit 1). Department and specialty-store chains have become increasingly adept at omnichannel selling, making it easy for consumers to shop, select and purchase items online and pick them up at a nearby store.

Exhibit 1. Across categories, consumers are becoming omnichannel shoppers



In automotive retailing, e-commerce has transformed the first stages of the consumer journey. Before they head to a showroom, today's car buyers have done their homework online (Exhibit 2). The typical car buyer (both new and used) devoted 61 percent of their time researching and shopping online. In addition to the increasing the likelihood of a finding better deal, online car shopping is making car buying more efficient: buyers spent 13.55 hours shopping for and purchasing a vehicle in 2019, compared with 14.44 hours in 2017.⁴

But they aren't spending a lot of time on dealer or automaker sites. The majority of consumers—78 percent—start the online journey on independent sites, such as Autotrader or TrueCar.⁵ Only 14 percent of buyers start their research on dealer websites and even fewer—12 percent—start at automaker sites. But for 45 percent of new-car buyers, the dealer site is the last stop on their web journey.⁶

⁴ [Car Buyer Journey 2019](#), Cox Automotive

⁵ [Car Buyer Journey 2018](#), Cox Automotive

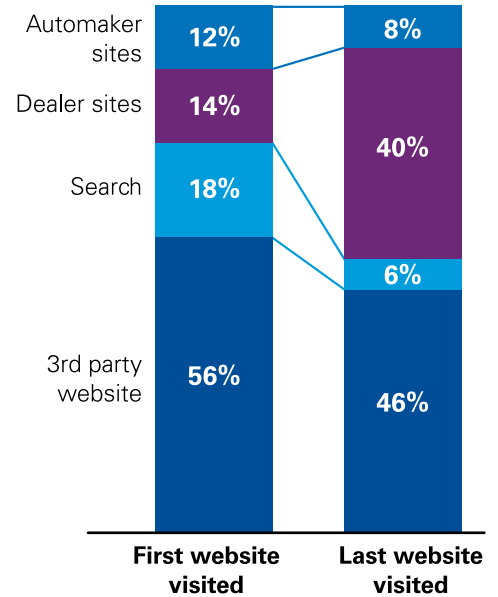
⁶ Ibid

Exhibit 2. The online experience is still mostly at the start of the car-buying journey

What car buyers search for



Where they search

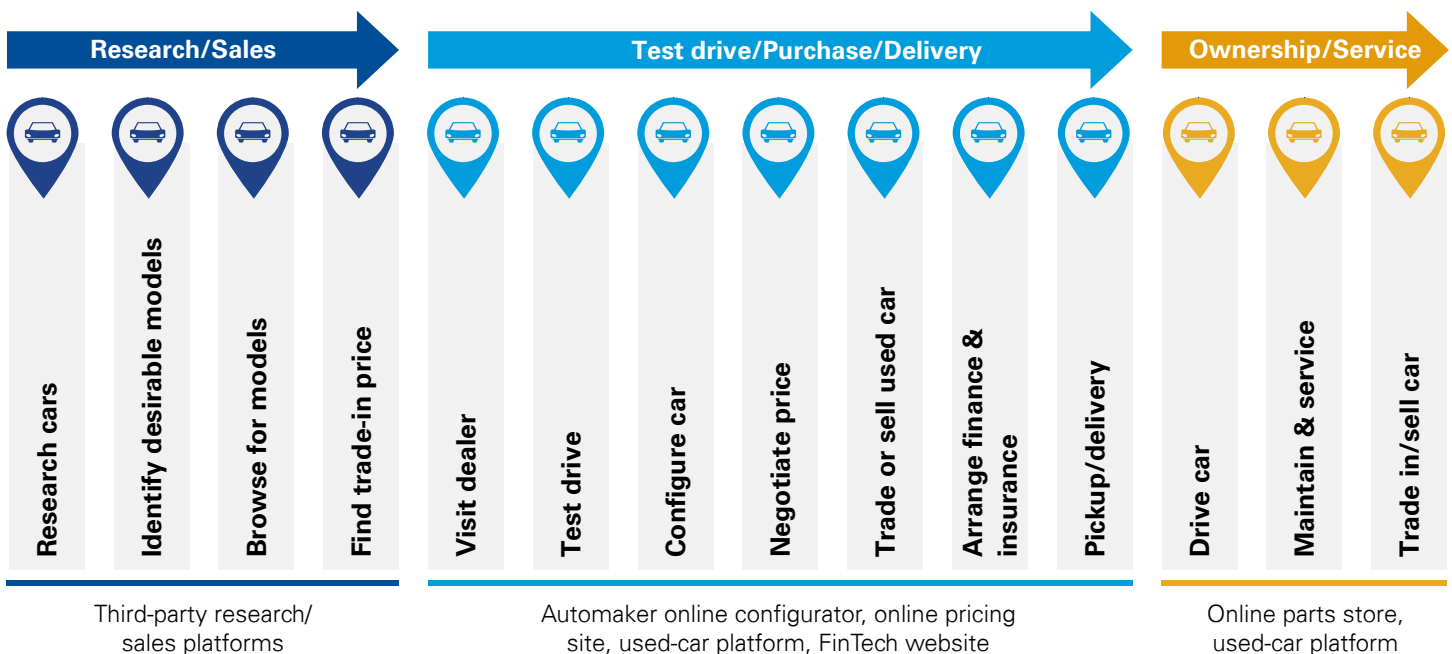


Note: All data is for new- and used-car shoppers
Source: Cox Automotive

Increasingly other parts of the shopper journey that traditionally took place at the dealer are taking place online. This includes getting a price for a trade-in or even selling the consumer's old car. The process of getting an auto loan, which used to take place in the dealer sales manager's

office, is being disrupted by upstarts such as Zuto, Smava and Kiva. There are even peer-to-peer lending platforms, such as Prosper and Lending Club, which provide auto loans funded by accredited investors, rather than banks (Exhibit 3).

Exhibit 3. Activities that used to take place at the dealer are going online with third parties



An unsustainable trajectory

Technological, economic and social forces all seem to be working against dealers. The biggest impact has come from price transparency, which in the past decade eroded margins on new car sales. Strong unit growth and new sources of profit—particularly finance and insurance (F&I) and maintenance and parts—enabled dealers to raise net profits from 2011 to 2018. But these sources of profit are being chipped away.

First, the long-term trend toward mobility services looms as a significant damper on new-car sales through dealers. Starting in the mid- to late-2020s, Av-MaaS (autonomous-vehicle mobility as a service) cars will start to appear on geo-fenced areas in cities—what we call “islands of mobility.”⁷ This, eventually, will reduce new-car demand. New-car profits will also be squeezed by increasing price transparency and the growth of direct sales, including rising fleet sales. AV-MaaS fleets, for example, will likely be sold directly to mobility services.

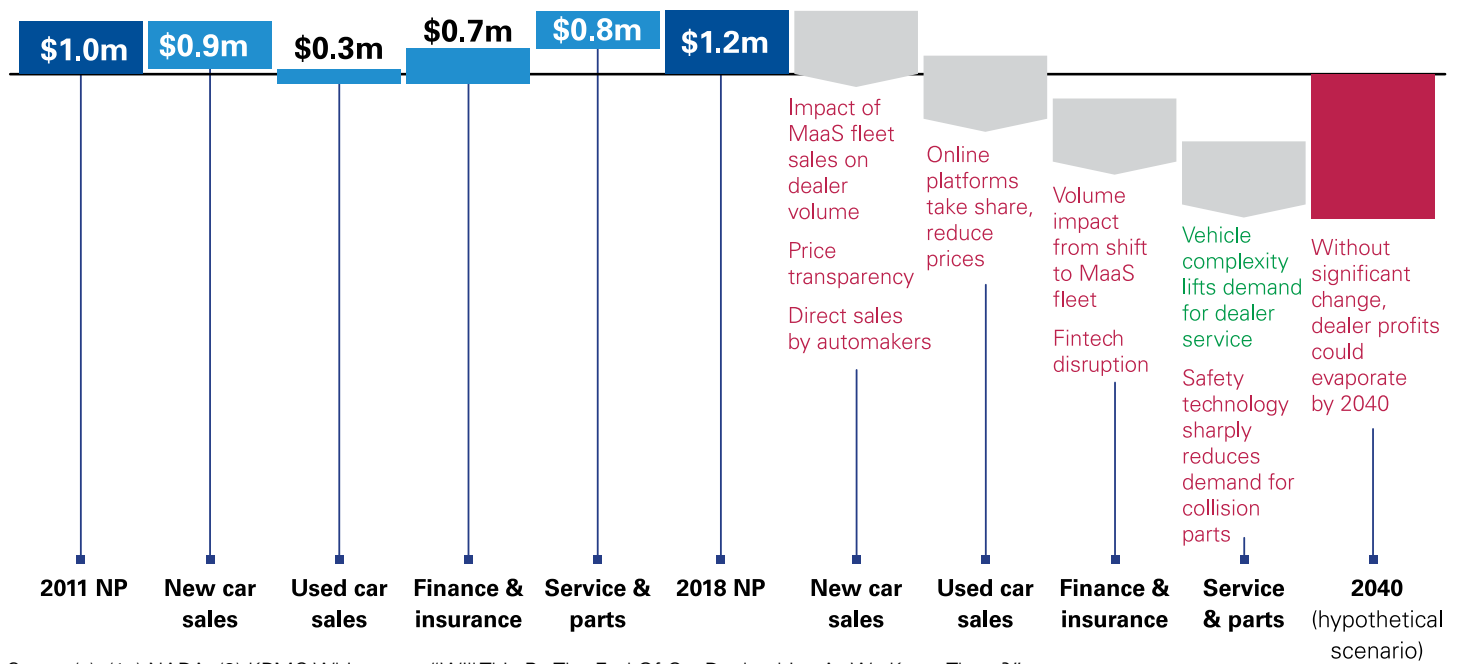
In the near term, digital disruption continues to erode used-car margins and threaten F&I. In used cars, where the

dealers are not protected by franchise laws, online used-car platforms with guaranteed pricing have put downward pressure on prices and given consumers an alternative to dealer trade-ins. Meanwhile, FinTechs are competing with dealers in F&I by offering convenient online service and more options.

Maintenance and parts profits are vulnerable, too. With increasing fleet sales, fewer cars will require dealer maintenance—even as the growing complexity of new cars may encourage consumers to stick with dealer service. The lucrative collision parts business faces an existential threat from the spread of cars with accident-avoidance technology, which will sharply reduce collision rates. We estimate that the collision parts and repair business could shrink by 26 percent by 2030.⁸

Exhibit 4 shows how dealers have built new sources of profit and how, if they do not adapt to powerful forces over the next two decades, even these sources of profit could disappear. It will take continuing innovation, new strategies and collaboration with automakers to avoid this outcome.

Exhibit 4. The average mass-market dealer managed to increase net profit from 2011 to 2018, but powerful forces are working against long-term profitability



Source(s): (1a) NADA; (2) KPMG Whitepaper “Will This Be The End Of Car Dealerships As We Know Them?”
 Note: Figures may not sum due to rounding.

⁷ *Islands of Autonomy*, KPMG 2018

⁸ 2018 Car Buyer Journey Study, Cox Auto, Inc., 2019 Car Buyer Journey Study, Cox Auto, Inc.

Plotting an end-to-end online consumer journey

If you can buy a mattress online and have it delivered to your home—and return it if it does not live up to expectations—why not a car? The answer is, you can, albeit in a limited way. In the used-car market, companies such as CarMax and Sonic run websites where shoppers can find used cars, get financing, make a purchase, sell an old car, and pick up the new vehicle at a company-owned store—and return it in seven days if they're not satisfied. On the Carvana platform, a consumer can even get a car delivered to their home. To telegraph the simplicity of its process, Carvana has built vending machines to dispense used cars, just like dispensing soft drinks or snacks. Its formula seems to be working: revenues ballooned to \$1.95 billion in 2018 from \$130 million in 2015 and were expected to double to about \$3.9 billion in 2019.⁹

Tesla has been a pioneer in bringing an end-to-end online shopping experience to its customers. But established auto brands are limited in their ability to duplicate the Tesla approach by state franchise laws (See “Will automakers ever go direct?”).

Meanwhile, e-commerce behemoth Amazon has been aggressively growing its automotive business and now provides segments of the buying journey in the U.S., such as online research and links to test-drive services. In 2016, the company began selling three Fiat models in Italy, with hopes of expanding sales into other parts of Europe.¹⁰



⁹ Zacks Investment Research

¹⁰ Sources: (1) KPMG analysis (2) One Click Retail (3) Fortune (4) Driving Sales (5) Fortune

Will automakers ever go direct?

Wouldn't life be easier for automakers if they could offer the end-to-end experience that online upstarts are creating in the used-car market? They could control their brands and compete on a great customer experience as well as on the performance, style and comfort of their cars.

But state franchise laws—enacted to protect dealers—outlawed direct sales by automakers. In return for a franchise agreement that gave the dealer a defined sales territory, dealers promised exclusivity and automakers agreed not to compete with dealers by selling directly to consumers. There has been intense debate in the industry about whether franchise laws have outlived their usefulness, but the consensus among dealers and automaker leaders we talked to for this research is that the status quo will not be toppled any time soon.

In the meantime, newcomers to the auto market that don't have dealer networks are prying open the door to direct sales. EV market leader Tesla operates its own showrooms in 23 states. Tesla has built a website where shoppers can select a model and even complete the purchase and get financing. It matches the site with sleek showrooms that show off design and technology—like going to an Apple store rather than the phone store in the strip mall. Now, with tight cash flow, Tesla is exploring a shift to selling cars completely online to reduce costs.

Electric-vehicle start-up Rivian is also expected to avoid establishing a traditional dealer network.

Meanwhile, French automaker Peugeot, which quit North America in 1991, plans to re-enter the market sometime after 2022. This time, it is said to be considering using company-owned stores. Because its dealer network no longer exists—and can't be harmed by competition with company stores—Peugeot could encounter fewer legal challenges.¹¹ In November 2019, Chinese EV startup Byton announced that California had granted it a license to operate a retail store, part of a planned “hybrid” retail strategy, the company said.¹² If this tactic works for Byton and Peugeot, it raises the interesting question of whether owners of storied but dormant brands such as Pontiac, Plymouth or Mercury could follow suit.

Meanwhile, two automakers with existing dealer networks—Porsche and Volvo—are trying a direct route to customers with subscription services. Care by Volvo is a 24-month inclusive package, with insurance and a choice of models (subscribers can switch at the halfway mark). The service includes home delivery by a Volvo “concierge.” Volvo dealers in California immediately cried foul when Volvo announced the program in 2017 and the California Department of Motor Vehicles launched an investigation in August, 2019.¹³

¹¹ It is not known how Peugeot's planned tie-up with Fiat-Chrysler might affect these plans.

¹² Bradley Berman, “Byton gets California license to become an automotive retailer,” Electrek, Nov. 18, 2019.

¹³ Paul A. Eisenstein, “California could shut down those popular car subscription services,” NBC News, Aug. 27, 2019

Many roads to a great customer experience

In the previous chapter we talked about the continuing efforts to make car buying more like buying other products. In 2020, that means a rich online experience that gives the consumer lots of information and choices. It also means that the manufacturer and retailer have comprehensive data on shopper demographics and behavior and the analytical capabilities to move the shopper through the funnel—with, for example, recommendation engines that tell you that shoppers who bought those shoes you're looking at also liked this sweater. Creating that seamless data-driven experience is enormously challenging in the automotive sector, given the automaker's limited access to customer data and the resource constraints that keep many dealer groups from making greater investments in online.

But creating the seamless end-to-end digital experience may not be the most important problem to solve. While Americans buy everything from diapers to caskets online, 90 percent of retail sales are still rung up in stores. In the U.S. automotive market, where the average car price hovers around \$35,000 and the car is the second largest expense for most households (behind mortgage or rent), the full online experience may never become the norm.

As the illustration below shows, shoppers can take many routes to a car-buying purchase. And there is a range of

customers—a continuum from the buyer who prefers to do it all in the showroom to the all-digital consumer, who is happy to buy online and wait for delivery. In between are the vast majority of consumers. These days, most of them will start with online research. Some will stop there and head for a dealer. Others will keep going, using an automaker site to configure the model, then getting a price on a platform such as TrueCar, then looking for the desired car in dealer inventory. Some shoppers will stay online to get financing and insurance, then head to the dealer for a test drive and purchase. For all kinds of buyers, the process is no longer linear—from research to consideration to negotiation and purchase. Instead, car buyers will shop online, visit a dealer or two, then go back online and search some more.

In this chapter we look at how various stakeholders are positioned to reshape auto retailing to work for all consumers. Because there are so many different types of car buyers and so many possible journeys, every player in automotive retailing doesn't need to compete to build the perfect end-to-end shopping machine. That effort will most likely be a team sport with partnerships, alliances and "frenemies" across the auto retailing ecosystem—collaborators who collectively will meet the needs of consumers along the shopping journey.

Massive complexity: Many types of buyers and many possible online/offline consumer journeys



Research

Research models, options; short-list candidates



Consideration

Price models and configurations



Test drive

Physically experience and test drive vehicles



Selection

Evaluate alternatives, make final selection



Trade in

Evaluate trade-in options and execute transaction



Finance/Insurance

Find financing, arrange insurance coverage



Purchase/Delivery

Negotiate final terms, arrange delivery

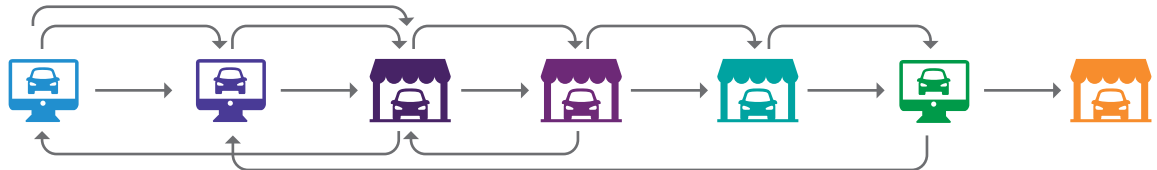
Hands-on:
From start to finish at the dealer



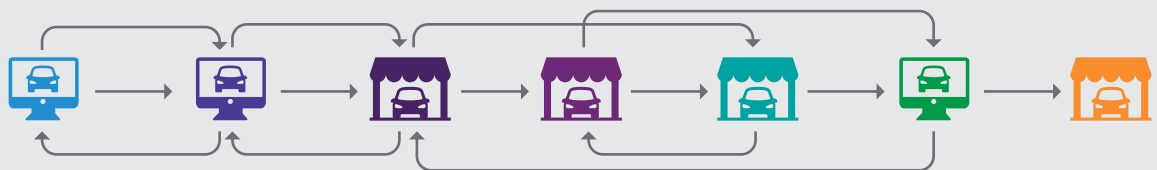
Impulse buyer:
Minimal online research; rapid dealer transaction from inventory



Car aficionado:
Devours online information, serial test-driver, enjoys haggling



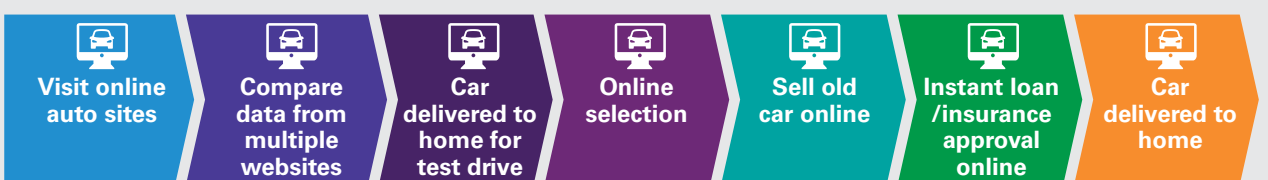
Budget online shopper: Busy but cautious, places value over performance/brand



E-commerce enthusiast: Still needs hands-on experience to buy a car



Digital leader: Buys meals, mobility, travel from phone—why not a car?



Suppliers

Automaker and independent websites such as Autotrader

Pricing sites such as unihaggle

At dealer or arranged online

Dealer/manufacturer online inventory pages or third-party site

At dealer or via used-car platform (CarMax, Carvana, etc.)

At dealer, bank or via online FinTech

At dealer or to curb via used-car platform or dealer "concierge"

Online Dealership

What can dealers do?

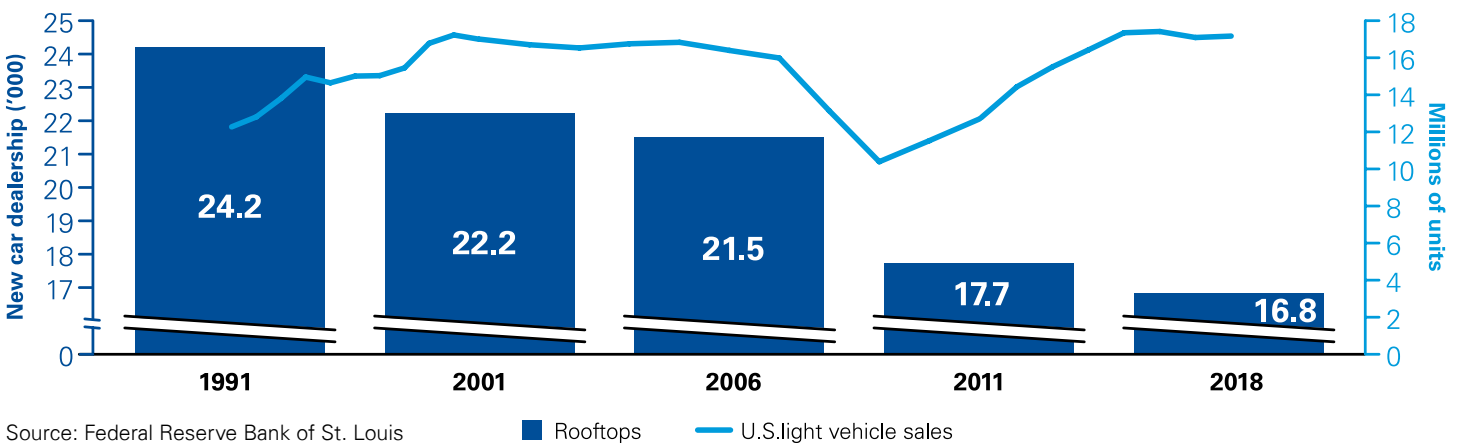
Dealers are in a position to make the greatest changes in the car-buying experience, but many are also the most constrained by economics and limited scale. As we describe in this paper and in previous research (*Will this be the end of the auto dealer as we know it?*) dealers are under increasing economic pressure. Margins on new and used cars have shrunk and other sources of profit, such as finance and insurance, are being disrupted.

However, underneath the system-wide averages, there is a stark division between dealers that are growing and maintaining profitability and those that are falling behind.

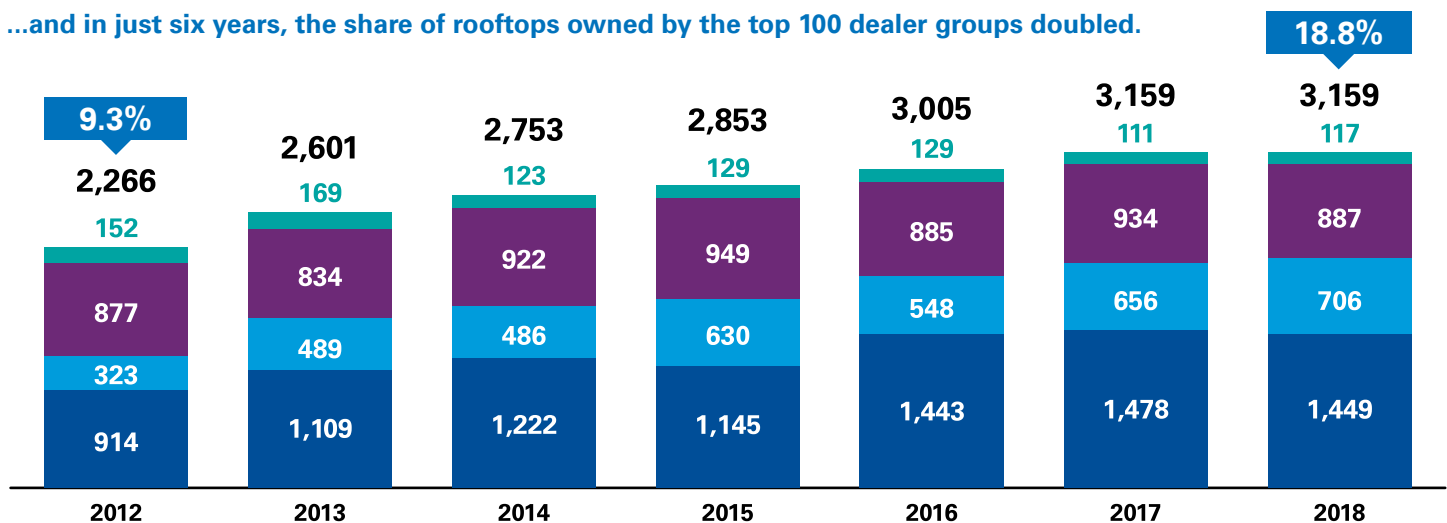
The traditional, small-scale dealership (with one or two showrooms) is struggling while the largest dealer groups continue to expand. The number of U.S. dealer showrooms or “rooftops” declined by 30 percent from 1991 to 2018, even as new car sales rose from 12.3 million to nearly 17.3 million units (Exhibit 5). In 2010, the top 100 dealer groups owned 12 percent of all rooftops. By 2018, that figure had jumped to 18 percent. Sales for the largest dealer organizations grew at a 12.9 percent compound annual rate from 2010 to 2018, while overall sales grew at a 5.4 percent annual rate.

Exhibit 5. Dealers have been consolidating

The number of dealer rooftops dropped 30%, while sales rose...



...and in just six years, the share of rooftops owned by the top 100 dealer groups doubled.



Source: NADA reports

Number of rooftops: ■ Greater than 50 ■ 26-50 ■ 11-25 ■ 6-10

Many large dealers groups have achieved multi-state or national scale. As they have grown, the megadealers have consolidated marketing and back-office functions to gain synergies and improve store profitability.¹⁴ Based on volume and growth, the largest dealer groups also qualify for the highest “stair-step” incentives from manufacturers and have more money to put into monthly promotions and a larger web presence to draw in customers. This has led to increased intra-brand competition among dealers, often shifting sales away from small local dealers.

Today, the dealer system can be divided into five distinct segments—megadealers, auto malls, regional dealers, destination dealers, and local dealers. These segments differ across key dimensions—geographic scope, number of brands in portfolio, brands per site, and site size. Each segment has its own strengths and weaknesses, which determine their relationships with automakers and will help them drive improvements in the auto retail experience—or hinder their ability to shape the future.



Megadealers

These dealers are national in their scope, with hundreds of rooftops in many geographies. They typically carry multiple brands across their portfolio; AutoNation has more than 30. Megadealers are the largest players in terms of revenue, and many, such as AutoNation, Penske, Lithia, and Sonic Automotive, are publically traded corporations. Although they, too, have been hurt by margin pressures, they have the capital to invest in technology and experiment with new selling models to deliver a better customer

experience. Working on their own and in collaboration with dealer management systems vendors (Reynolds & Reynolds, Cox Auto, and Roadster) and with their franchisors, megadealers could pull together the data and technology to offer a smooth omnichannel shopping experience. Online could also help megadealers do a better job of showing customers how many choices they offer and encourage cross-shopping (see “Missed megadealer opportunity: cross-shoppers”).



Auto malls

Auto malls are sprawling retail developments covering acres of prime real estate. Despite their size, they can offer car buyers a more local experience than the national megadealers. But unlike megadealers, destination dealers or other segments, auto malls offer multiple brand showrooms on one site so car buyers can easily shop among multiple nameplates without having to leave the mall.



Multi-brand regional dealers

In this segment, owners have accumulated numerous dealer sites in a single region of the country. They typically offer several brands, but only one brand per site. These operations have advantages similar to those of mega dealers, including scale and the ability to offer the car buyer a choice of brands (albeit at different rooftops).

¹⁴ Source: NADA reports.



Destination dealers

Destination dealers are large dealers that carry huge inventories and draw customers from a wide geographic region, often by advertising deep discounts to sticker prices. These dealers have significantly different strengths than the other dealer segments. They have the scale advantages of megadealers, but they are more brand-focused. Destination dealers are gaining share by attracting car buyers willing to travel 200 or 300 miles to browse a large inventory and get a deal on exactly the car they want, rather than trying to negotiate a price on whatever is on the lot at a dealer closer to home.



Local dealers

Local dealers are the most vulnerable segment of the dealer system, and their numbers are dwindling. These small dealer organizations are increasingly in economic peril because of margin pressures and intra-network competition. We estimate that a local dealer needs to sell 70 units per month to qualify for manufacturer incentives and remain competitive. Small dealers are usually not well capitalized and could find it difficult to make the investments in training and equipment needed to service more technologically advanced cars, including electric vehicles.

Missed megadealer opportunity: cross-shoppers

Consumers are natural cross-shoppers. They go from one store to another, from one retailer website to another, from one brand to another in search of the best product and the best deal. In the automotive market, they cross-shop, too, but in a very specific way.

We tracked auto shoppers in the Tampa market to understand their cross-shopping behavior. We discovered that even though megadealers might have dozens of brands within their networks, when shoppers decide to look for another brand, they rarely stay within the megadealer's network. Nearly half of shoppers who left a showroom without buying continued shopping, and

73 percent of these shoppers looked at another brand. But more than 90 percent of these cross-shoppers went to a showroom of another dealer group—only 9 percent stayed under the megadealer's umbrella. Often this was because of proximity (megadealers may have stores in different parts of the metro area and shoppers tended to go to dealers within a couple of miles of where they started).

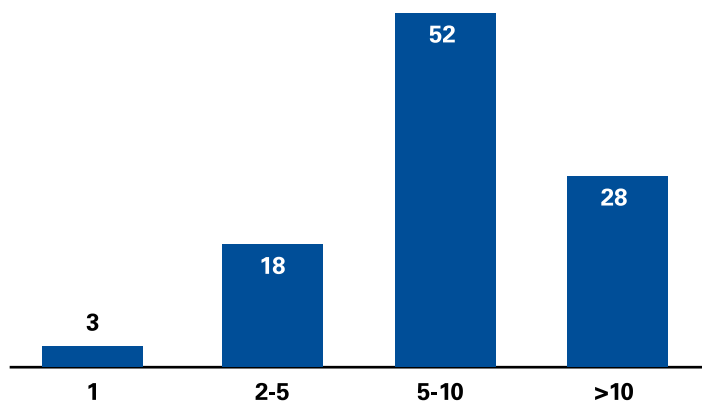
This pattern of behavior points to a large missed opportunity. Instead of losing a sale, megadealers could get sales reps (with the proper incentives) to refer shoppers to other brands within the network.

Within these segments, the balance of power is clearly shifting toward large-scale, multi-brand players—megadealers, auto malls, and multi-brand regional groups. In an analysis of the top 100 dealer groups in the U.S., we found that megadealers and regionals with multiple brands generated 80 percent of sales within the group in 2018. The growing clout of these multi-brand operations threatens to undo the traditional relationship between automakers

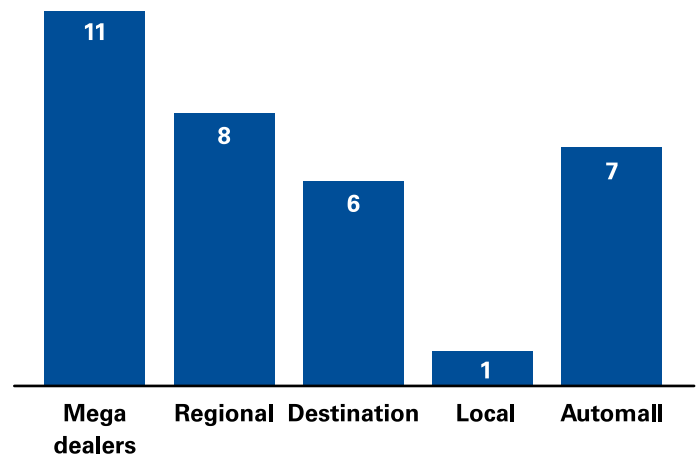
and retailers. Megadealers could become the “Walmarts” of auto retailing, carrying many brands and attracting customers to stores based on the strength of the retail brand’s reputation for price, selection and service, rather than the allure of brands on display. Automakers will need to consider this dynamic as they devise new methods to capture and retain customers (Exhibit 6).

Exhibit 6. The largest dealer groups sell multiple brands; megadealers carry the most

Top 100 dealer groups by number of brands carried



Average number of brands carried by different segments



Source: Company websites

Automakers can rethink the relationship with dealers—more pull, less push

For all sorts of reasons, major automakers will continue to rely on dealers—not least, because automaker economics are built around a wholesale model. Manufacturers can book a sale as soon as the car leaves the plant, so they do not have the expense of carrying unsold inventory. And the alternative—building a national network of company stores—would be prohibitively expensive.

This means that automakers not only have to ensure that dealers in every segment remain viable, but also that

auto retailing will deliver the customer experiences that will keep consumers buying their brands. Traditionally, manufacturers have used dealers to push product, rather than using the network to fill consumer demand. Automakers would develop new models, back them up with massive national ad campaigns, and then push them to dealers, who do their best to sell what they get—both the hot sellers and the models that customers have to be talked into.

With data and analytics, automakers can move towards a pull model for retailing that would be easier on dealers and better for consumers, too. Today, most automakers have little insight into who is buying their cars and why. But that data is available from a variety of sources—from the dealers, from online shopping sites, and even from the manufacturer’s own online “configurator” tools.

Tesla already gathers lots of customer data from its website and stores, which it feeds immediately into its design and production systems. This way, for example, it can quickly configure cars with the most popular options or make tailored suggestions to consumers who are using the on-line configurator. Tesla also lets customers place orders online for delivery at company-owned stores.

The day may never come in auto manufacturing when mass customization is practical and the average car buyer can place an online order for a custom-configured car for immediate pickup at the local dealer. But there are ways to move closer to a pull model and improve the odds that shoppers will find the vehicle they configured online when they take the trip to the dealer. One simple fix would be to maintain databases of regional inventory pools, which could facilitate transfer of vehicles within a market to quickly get the right car to the right dealer for the customer. This would reduce, but not eliminate, the top reason why shoppers don’t complete a transaction: the car they want is not in stock.¹⁵

Continuing innovation by third-party players

Much of the innovation and experimentation in auto retailing to date has come from companies that are neither automakers nor dealers. These players range from Reynolds & Reynolds, a provider of dealer management systems (DMS) that got into the auto business 90 years ago by selling accounting forms to Chevy dealers, to startups like Carvana and e-tailing behemoth Amazon. Reynolds & Reynolds, DMS startup Roadster and Cox Automotive all provide e-commerce tools for dealers.

Cox owns and operates car-shopping websites for consumers and hosts auto manufacturer sites, where consumers can configure models and see dealer inventory. Other players are providing parts of the car-buying experience that have traditionally taken place at dealerships, such as arranging financing and insurance. All these players are shaping the automotive retailing future and we expect that their innovations will continue to contribute to a better experience for car shoppers.

¹⁵ [Car Buyer Journey 2018](#), Cox Automotive



Winning the contest for the auto customer of the future

We know what an effective automotive retailing system for the future car buyer looks like. It's an omnichannel system that delivers a great customer experience, no matter what route the customer takes on the shopping journey. It responds to customer demand, but still moves millions of units a month. The future retailing system also offers new ownership models, such as subscription services, and provides vehicles and customer support for mobility services.

We also can identify many obstacles to realizing this vision, including the competing interests of different players. For decades, automotive retailing has been defined by the codependent and sometimes antagonistic relationship between automakers and dealers. Now, consolidation

gives large dealers an opportunity to renegotiate that relationship. And e-commerce has elevated the role of third-party players and disruptors in the automotive retail ecosystem.

No single player or group can reshape the system by itself. So, even as they compete, players in these three groups will need to find ways to collaborate. Based on their capabilities and strategic priorities, each player should determine:

- What to build
- What to buy
- When to partner



Automakers

Given the constraints of the current system, including regulatory limits on direct selling, how can automakers manage and improve the customer experience and help dealers in every segment succeed?

- **Engage with customers directly** and continuously over the lifecycle, rather than leaving that all to the dealers.
- **Re-evaluate incentives** to curb intra-network competition and encourage data sharing.
- **Work with dealers** to design the model for a coherent retail network that provides consistent online/offline customer experiences.
- **Support capability building** to help dealers sell and maintain increasingly high-tech vehicles, provide customer support and enable new ownership models.
- **Use data analytics** to get the right cars to the right dealers at the right moment. Find other ways to help dealers pull through demand, rather than push cars on shoppers.



Dealers

The big theme in the dealer business will continue to be consolidation. But despite their growing scale and clout, large dealers are not necessarily more productive on a per-store basis. Meanwhile, the economics for small local dealers continue to deteriorate.

- **Align staffing and roles** to the new reality (more filling orders and customer support, less pushing product). This can reduce costs and improve customer experience.
- **Think beyond price** to raise per-store revenue and withstand profit pressure.
- **Continue to experiment** and invest in online and data analytics. Continually refine a smooth omnichannel experience for customers.
- **Place your consolidation bets.** Large groups will continue to grow and small dealer organizations should think about how to join them to survive and continue serving their communities.



Other players

Third parties, including platform players, shopping sites, and disruptive startups have the greatest ability to innovate. But they also should be asking where to play, how to play, and with whom to partner.

- **Dealer platform players** can continue to add e-commerce capabilities for dealers and automakers. What additional services or features can they provide? How can they use their data?
- **Disruptors** (online used-car dealers, FinTechs, etc.). Disruptors have proven that they have the technical skills and knowledge to pioneer new models for auto retailing. Their challenge is to achieve scale before larger players duplicate their model. Or should they partner?

Conclusion: The road ahead

With so many players and so many resources being applied to the problem, we have no doubt that the automotive sector will catch up with other industries in delivering a data-driven, convenient, efficient and customer-delighting shopping and buying experience. Make that “experiences.” What automakers and auto dealers should not lose sight of is that there are many kinds of consumers in the auto market. As our research has shown, for every car buyer who is eager to swipe a smartphone screen and wait for the car to arrive at the curb, there are two or three others who still care deeply about brands, who literally want to kick the tires and who get a thrill out of sliding behind the wheel of a brand-new car in the showroom. The automotive retail system can do better for every kind of car buyer. It must.

How KPMG can help

KPMG is a recognized leader in delineating critical trends in the automotive sector—mobility, autonomy, electrification, etc. Our strategy practice has helped top companies in the industry plan and execute strategies to make the most of these trends.

Our data-driven approach allows us to quantify the impacts of trends such as mobility for automakers, dealers and other players so they can identify and prioritize emerging opportunities. We then assist clients in defining technology investment and development roadmaps to pursue these opportunities.

In addition, we support clients with operating model and business transformations to prepare their organizations for building new types of products and doing business in new ways. To implement new operating models, we develop forward-looking metrics.

In the past two years our automotive practice has:



Designed a subscription sales strategy for an automaker



Advised automakers on electric-vehicle plans



Served ride-hailing and mobility clients

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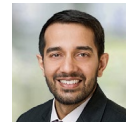
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Thank you

We would like to thank KPMG colleagues who contributed this work: Nehal Doshi, Kenneth Fodor, John Hart, Nidhi Khanna, John Jullens, Geoffrey Lewis, Anthony Magrogan, Tara Thompson and Drew Zorniger

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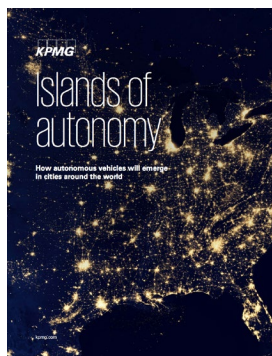
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Smarter cars, but more distracted drivers, too



Will this be the end of car dealerships as we know them?



Islands of autonomy

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