

DIGITAL OEM #2

AUTOMAKERS IN A DIGITAL WORLD



THE DIGITAL AUTOMAKER AND THE NEW CUSTOMER EXPERIENCE

A FRESH APPROACH TO THE CUSTOMER RELATIONSHIP IS REQUIRED FOR THE DIGITIZED ERA

MEGATRENDS MEAN COMPANIES MUST PUT CUSTOMERS FIRST

Almost all industries are currently undergoing dramatic change, as multiple, overarching trends disrupt the way people and organizations think, act, and communicate. The first issue of this Oliver Wyman series, “The Digital Automaker,” outlined five megatrend clusters that are reshaping global business and the world economy: 1) demographic asymmetries, 2) economic globalization, 3) resource constraints, 4) innovation shifts, and 5) new consumption patterns. These trends are being intensified by digitization and technological change, which means that many processes can be carried out faster, cheaper, and with fewer resources.

Automotive original equipment manufacturers (OEMs) are heavily affected by these digitization-driven advances, as scarce resources that once helped vehicle manufacturers to differentiate their products have become abundant. As a consequence, the companies that will win in the marketplace are those that can create competitive advantages based on means that are still limited and therefore valued. These will be focused on customer interaction – the trust, service levels, and emotions that customers experience. So now, more than ever, automakers must put the customer first. Rethinking organizational action from a customer-centric point of view is pivotal for an automaker’s long-term success.





THE EXPERIENCE IS THE BRAND

Of the five megatrends, new consumption patterns could impact automakers the most, by fundamentally changing how they interact and communicate with their customers.

Digitization and big data have transformed the way customers think and what they expect, as well as how different customer groups behave. Connected consumers in the networked economy discover brands in new ways, have changed expectations, and experience the product offering differently.

For long-term success, automakers need to create a customer experience that reflects these new trends and shifts. In particular, brands are increasingly built by engaging with customers and providing them with experiences they value, rather than simply through the features of products. As a result, brand building has become more experiential, relying less on advertising campaigns around product features and more on inspiring stories and customer experiences of the core offering. A study by Oliver Wyman's sister company Lippincott found that taking ownership of the entire customer experience by steering the interface between company and customer can boost annual market value growth by as much as 4 percent.

The re-invention of customer experience has at its core the objective of going beyond product benefits and reimagining the whole journey for customers.

EXPERIENCE INNOVATORS TRANSFORM THE AUTO SPACE

The ongoing technological transformation has also enabled digital disrupters such as Google, Apple, and Tesla to break into the market, where they have taken on the role of experience innovators. They engage customers in a way that leaves traditional players behind, confronting OEMs with a paradigm shift. First, the automakers have to significantly increase their frequency of customer interaction to meet the communications levels exhibited by digital disruptors. Second, they are forced to create a compelling story and innovative content to underpin the new customer experience they offer. The customer journey needs to be made emotional, not only across sales channels, but across all products in a brand ecosystem.

As a consequence, automakers that lack experience of close-meshed customer interaction need to develop such a customer experience in a way that goes beyond mere product functionality, and creates an ecosystem people want to be part of. If they do not enhance the traditional automotive customer experience, digital players will gain market share at their expense. Therefore, experience innovation should be viewed as a new approach to business, with the aim of finding new avenues in which to differentiate and develop the customer journey.

REQUIREMENTS FOR A CUSTOMER EXPERIENCE

Incumbents should take into account experience requirements in three dimensions. First, customers' needs should be the bedrock of every experience they have. Important prerequisites include offers of individual support, a focus on customer needs through uncomplicated interactions, and availability on every channel desired by the customer. These help to create emotional interconnections and to foster a mutual understanding of values. For instance, supporting salesmen by customer caretaker will help to put the customer and their needs at the center of all sales activities.

Second, changes in product requirements must be taken into account. Product personalization and compatibility for cross- and up-selling are important requirements for developing a customer experience that has impact. They foster the emotional aspect of the offer and help close the gap between an automaker and the digital experience innovators from the tech world. For example, when a customer switches vehicles, the new one can be personalized in advance by automatically transferring in-car settings such as heating preferences, seat adjustments, and music playlists.

Third, automakers should make use of ongoing trends, such as the exponential increase in data and customers' increasingly connected lifestyles, to personalize the customer experience and develop emotional connections across products. For instance, data on online search behavior can help to individualize marketing campaigns, significantly increasing the likelihood of a sale.

However, trying to compete head-to-head with experience innovators such as Apple will be costly and mostly unprofitable. The comprehensive digital customer experience provided by an automaker must still fit its overall business model. The experience that a premium manufacturer can aim to offer, for example, will differ in many respects from that of a volume OEM.

KEY ELEMENTS OF CUSTOMER EXPERIENCE FOR A DIGITAL AUTOMAKER

These three main requirements for a successful customer experience can be translated into four principles.

First, an automaker should create a purely customer-centric experience – designed around customer needs and preferences, and focusing on usability for the customer and the minimization of potential hassles. Second, the OEM needs to develop a holistic, 360-degree view of the customer, by linking all available data points. Data analyses will then help generate new insights on an individual as well as an aggregated level. These will strengthen prognostic capabilities and shorten the time taken to react to customer inquiries and demands. Third, the customer experience is characterized by a true omni-channel process, featuring content relevant to the customer in all channels. The interconnection of channels helps to avoid discontinuity and ultimately fosters emotional connectedness to the brand ecosystem. Last, by acting on these first three principles, the customer experience should form a cyclical journey around a closed loop. The customer will be guided through active touchpoints, where they will revisit elements of their experiences at previous stages in their customer life cycle. This reinforcement will enable the automaker to ensure a sustainable and recurring maximization of customer value and loyalty.

These four principles can yield a customer experience detached from a single product and instead linked to the brand. They attach emotions to products and the customer experience

across all available channels and throughout a firm’s product and service portfolio. The Apple-ID is a prime example of connecting customers to the brand itself and even deprioritizing single products. Within a distinct ecosystem, the customer experience is harmonized and translated into a corresponding journey.

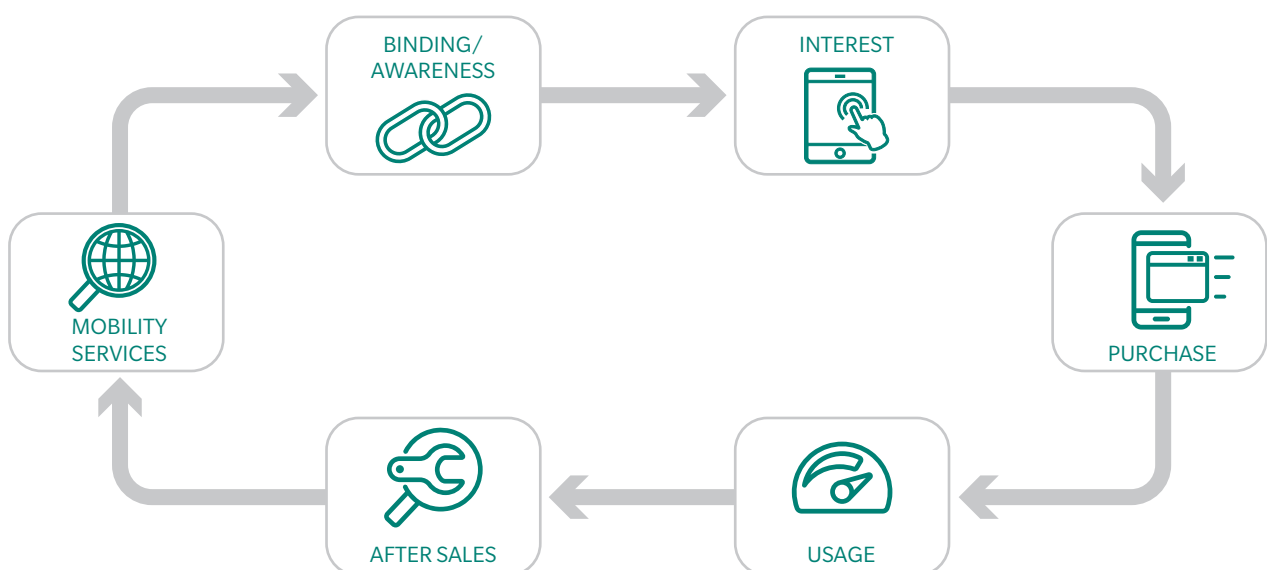
TRANSFORMING EXPERIENCE INTO A CUSTOMER JOURNEY

A customer’s experience of a company’s brand is made tangible by means of a corresponding customer journey. Delivering the described key requirements at concrete customer touchpoints yields a successful journey, where customers are accompanied at all stages of the life cycle with continuous, reoccurring interactions. The approach is highly individualized and continuously adapted to meet changes in customer needs. Bespoke communication produces personalized offers, leading customers actively through the life cycle. Above all, it guarantees a hassle-free experience at all stages of the journey.

CUSTOMER TOUCHPOINTS

In six dimensions – 1) awareness and interest creation 2) purchase 3) usage 4) aftersales, 5) mobility services, and 6) binding – Oliver Wyman has identified over 20 on- and offline touchpoint categories for a digital automaker’s cyclical customer journey. They range from early personalized guidance of customers towards their first or next purchasing step, through individual data-driven offers, to individual mobility service offerings based on usage data and customer behavior.

EXHIBIT 1: CYCLIC CUSTOMER EXPERIENCE



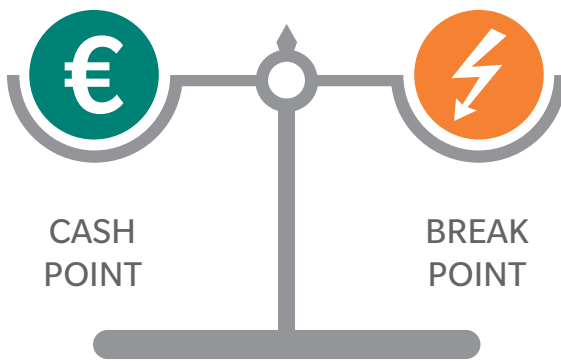
Source: Oliver Wyman

Irrespective of whether a touchpoint is on- or offline, customer-centricity can only be guaranteed if all touchpoints are interlinked through an all-encompassing database. Only by continuously collecting, evaluating, and using data generated from all customer interactions can automakers create a customer-specific brand experience and guide buyers towards the broader ecosystem. Otherwise, customers will be left alone after the purchase of a stand-alone product.

MOMENTS OF TRUTH

However, among the myriad of possible customer touchpoints, certain interactions have a particularly strong impact on the customer experience. Experience-oriented touchpoints, such as test-drives, and those presenting potential hassles, like repair shop visits, are of high importance to customers, making them “moments of truth.”

EXHIBIT 2: MOMENTS OF TRUTH



Source: Oliver Wyman

These are defined as interactions between potential or existing customers and a company that provides either direct opportunities for monetization or the risk of financial loss. The first is called a “cash point” and the second a “breaking point.”

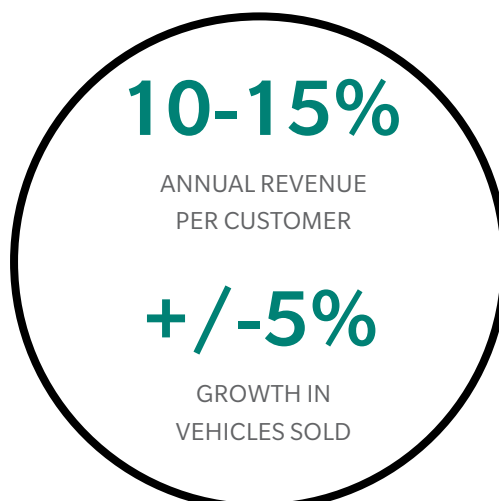
Cash points typically imply the potential to exceed customer expectations with specific offers. They are actively managed touchpoints, and they present a tangible opportunity to increase revenue, margin, and customer satisfaction through an early customer recognition and personalization of offers. Cash points should create excitement for a specific offer within the brand’s customer experience ecosystem.

In contrast, break points imply an above-average risk of losing or disappointing the customer. They are must-have touchpoints, reflecting basic customer requirements, and are needed to retain and satisfy customers. But, if not managed correctly, break points might have severe, negative, financial implications for the firm.

DIGITAL CUSTOMER EXPERIENCE USE CASES

When the possibilities of a digitized, data-driven customer experience are exploited, the revenue potential from moments of truth along the customer journey is substantial. Oliver Wyman estimates that improvements in the digital customer journey can increase annual revenue per customer by 10 to 15 percent. Further, an automaker will sell over 5 percent more vehicles and achieve a tangible increase in customer loyalty.

These estimates are based on six concrete exemplary use cases, each representing the broad spectrum of customer touchpoints and linked to a customer’s distinct moment of truth. They include new- and used-vehicle sales, aftersales, financial services, and mobility. If all these moments of truth and corresponding use cases are taken into account, the financial impact can be even higher. However, some use cases need an initial investment in order to capitalize on the full potential of a digitized customer experience. As a consequence, the illustrated use cases show revenue downsides as well as upsides.





1. REPAIR SHOP – CROSS- & UP-SELLING

RATIONALE: During regular repair shop maintenance stops, the customer is proactively offered additional products and services. Based on an individual customer's behavior and vehicle data, products and services are offered that guarantee a good fit to the driver's current situation and needs. Thus, cross- and up-selling potential is significantly increased.

ANALYTICS: A detailed profile of driving style and preferences, as well as customer and vehicle life-cycle data, is extracted from data collected at various touchpoints along the customer journey. Potential data sources are visits to websites and configurators, protocolled direct contact by sales staff, vehicle usage, digital services, and historic aftersales purchases. These personal data are enhanced with metadata from relevant customer groups that the individual in question belongs to. All this data can be put together to extract a profile that is matched against the automaker's aftermarket products and services catalogue.

QUANTIFICATION: Using base-case assumptions of average service costs per instance, individual cross-selling can potentially add 10 percent to service revenues, and up-selling 25 percent.

2. VEHICLE CROSS-SELLING – TARGETED CUSTOMER ACQUISITION

RATIONALE: Transforming mobility services customers into car owners will not only neutralize the potential cannibalization effects from services like car sharing, it will also offer significant upside potential when the right product is offered at the right time. The offer is based on mobility services usage patterns or – if available – website and configurator data. When the customers book their next car sharing ride, they are routed towards the car model they might consider purchasing. Usage of the mobility service thus becomes a hidden test-drive embedded within the sales process. Afterwards, when initiating their next booking, the customer is shown an individualized offer, accompanied by a customized financing plan.

ANALYTICS: A customer's needs are identified by their mobility service usage, vehicle and driving patterns, and online behavior. This profile is then used to identify an optimized personal new vehicle configuration and provide a push advertisement for a new vehicle purchase.

QUANTIFICATION: Based on the average annual revenue from mobility service customers and taking cannibalization and estimated take-up rates into account, on-top revenue per customer from up-selling inspired by mobility services may be 280 euros, or 10 percent of annual mobility service revenues.

3. REPLACEMENT OFFER – AUTOMATIC RESELL PUSH QUOTATION

RATIONALE: Based on individual vehicle usage and car condition, as well as aggregate used-car demand in a certain market, vehicle owners automatically receive a price quotation for their current vehicle when it has reached a certain threshold in its life cycle. This increases the opportunity for an automaker to feed the vehicle back into its own used-car business, where it can profit from increased take-up rates of financing and maintenance services.

ANALYTICS: Touchpoints such as usage and maintenance records are used to estimate the condition of a particular vehicle. These data are then matched against market price levels for used cars and aggregated touchpoint data such as current offers or sales behavior. An individual price quotation is thus generated. A notification is triggered when the optimal sell-on value for the car is reached or when customer-specific data indicate that the customer is considering buying a new car.

QUANTIFICATION: A base case represents average revenue from used-car and new-car sales. Additional used- and new-car revenue generated from shortened holding periods and the increase in used-car value can be assumed to add over 30 percent to new- and used-car revenue potential. That adds up to 4,600 euros over a customer's life cycle.

USE CASES

4. NEW VEHICLE PURCHASE – INTELLIGENT CONFIGURATOR

RATIONALE: Although most automakers already use different forms of recommendation algorithm, current online car configurators mostly resort to static offers based on limited data sources. Up- and cross-selling can be significantly enhanced by integrating multiple data sources into the generation of offers, thus making configurators sensitive to individual preferences and buying patterns. Further, state-of-the-art data analytics will add self-learning capabilities to the configurator, letting the OEM continuously improve its recommendations.

ANALYTICS: Databases of historical purchases are mined for popular configuration patterns. An individual customer's past and current purchasing behavior, as well as that of relevant customer groups, is matched with vehicle usage patterns, mobility services usage, and social media data. Other customer trends, gathered from social media, are fed into the algorithm, so that three types of data source fuel a configurator's dynamic intelligence. First, a database of historic purchases is mined for popular configuration patterns. Second, user-specific preferences are extracted from data collected along the customer journey. And third, user preferences are converted into product recommendations by matching them against the offerings catalogue.

QUANTIFICATION: Based on the average list prices of new vehicles and the average take-up rates and prices of options, cross- and up-selling through intelligent configurator suggestions have the potential to yield an additional 0.25 percent of vehicle revenue, or 120 euros per customer.

5. REPLACEMENT PROMOTION – HIDDEN TEST-DRIVE

RATIONALE: As part of a targeted replacement advertising campaign, the customer is given an opportunity to test-drive a potential replacement vehicle. However, the customer's test-drive of their dream car is disguised as a courtesy vehicle provided during the repair or maintenance of their current car. In addition to possibly initiating a sales process, the test-drive increases overall customer satisfaction with the brand and adds emotion to the overall customer experience.

ANALYTICS: In order to evaluate a customer's sell-on potential and identify a suitable vehicle, data is synthesized from all touchpoints to provide insights into personal preferences. Potential data sources are manifold and include point-of-sale protocols, vehicle usage, digital services patterns, and offline maintenance behavior.

QUANTIFICATION: The automaker must make an initial investment to upgrade its courtesy vehicles. However, additional revenues result from an increased purchase rate as well as vehicle up-selling. Compared to sales generated through typical courtesy vehicle use with its very-low take-up rate, this use case offers on-top revenue potential of up to 35 percent per customer, or 1,800 euros.

6. REPAIR SHOP – PIT STOP TEAM

RATIONALE: Repair shop visits, especially unscheduled ones, risk being brake points along the customer journey, negatively affecting the overall experience. So, use cases that avoid negative perceptions by customers and transform possible brake points into potential cash points are highly valuable. By simplifying the process of tire changing through a mobile pit stop team, a touchpoint that has been perceived as negative and time-consuming can be turned into an occasion that strengthens the relationship between a customer, a dealer, and the brand. Despite the need to invest in a costly mobile pit stop team, the enhanced service level can turn an interaction with the potential to lose customers into one that generates brand connection.

ANALYTICS: Scheduling suggestions for the pit stop are derived from vehicle usage patterns and personal data on the customer's availability. Further, vehicle usage data and repair shop visits are combined to identify additional products and services for potential cross-selling.

QUANTIFICATION: This depends on the average price of a tire change and the extra investments needed for the mobile pit stop team. Since the initial investment will only partially be neutralized by any price premium charged to the customer, the profit made from a tire change will decrease by around 45 euros per customer, or 11 percent. However, customer satisfaction and loyalty can be increased substantially.

WHAT AUTOMAKERS HAVE TO DO

If incumbents want to safeguard customer access, they need to prepare for a paradigm shift in customer interaction and the digital customer experience. Oliver Wyman has identified six action areas automakers need to address in order to successfully establish a high-impact digital customer experience and prevent digital disruptors from winning the battle of experience innovation. While the degree of change in each area will depend on an automaker's overall business model and strategy, all areas need to be addressed when setting up a comprehensive, digital customer experience.

First, draw up a clear vision of a compelling customer experience. All digital innovations and corresponding touchpoints must add up to a vision that is unique to the brand and revolves around clearly-defined customer use cases.

Second, pursue a holistic approach. Activities should be channeled across all business functions to create a seamless experience along the entire customer journey, smoothing over potential break points.

Third, become truly omni-channel. Innovate a customer experience that goes beyond vehicle functionality. Detach the customer experience from stand-alone products and create a comprehensive brand experience.

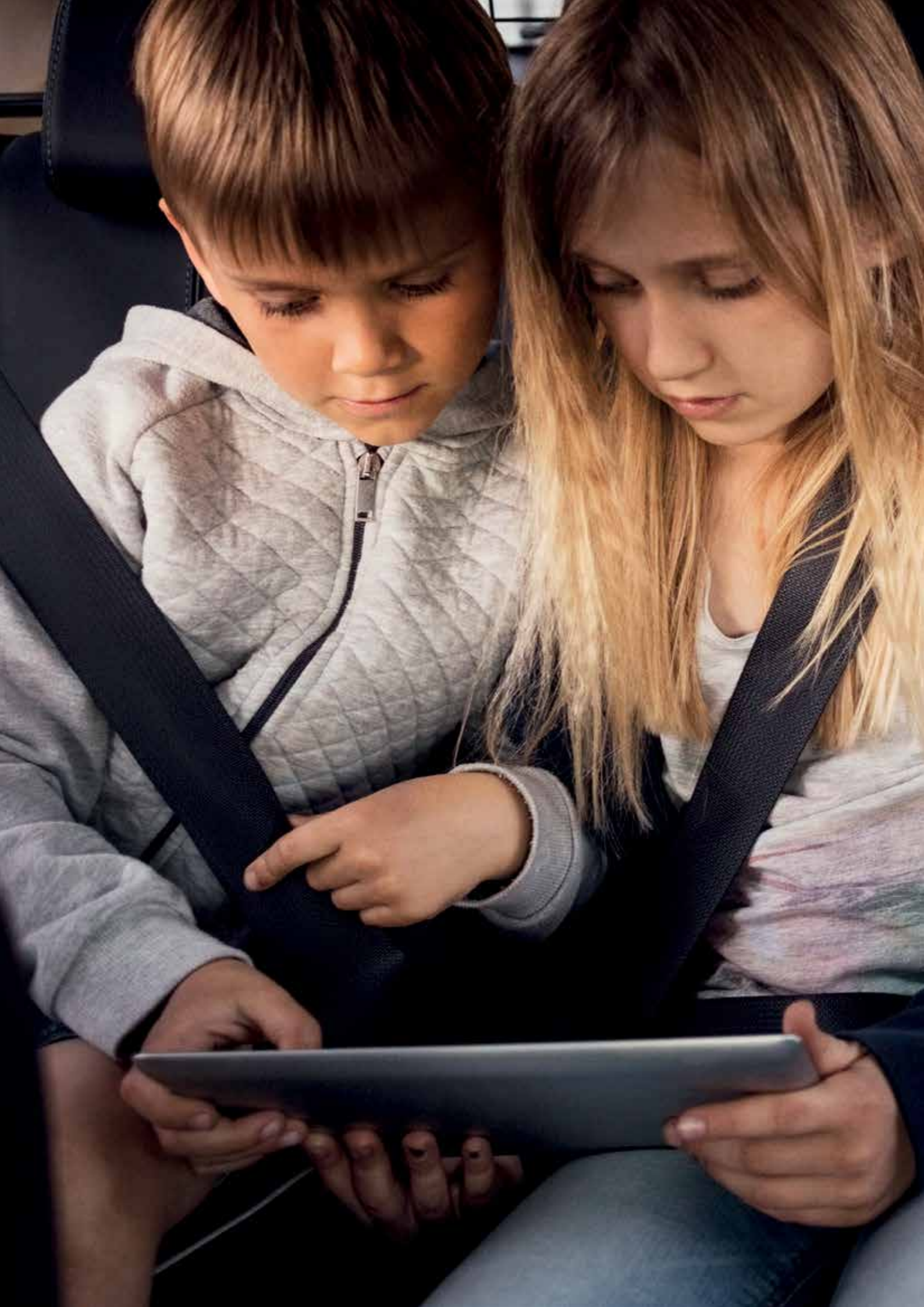
Fourth, focus on monetizing cash points. Identify and excel at the most important cash points by combining historical strength and innovative experiences to create value. As was pointed out: Trying to imitate digital disruptors such as Google will result in extensive costs without the desired returns.

Fifth, create a single, comprehensive database. Connect different data pools to develop detailed customer profiles on the individual, customer-group, and market levels.

Sixth, set in motion a stringent transformation process. Be fast and agile. Start creating innovations in experience one by one and employ test-and-learn cycles. This will be faster and more effective than trying to digitize and enhance all customer touchpoints along the journey at once.

Automakers need to deliberately set out action areas for developing a compelling customer experience, and they need to act fast. Prominent new players with deep pockets and extensive experience in serving customers are pushing into the car market, steadily increasing pressure on incumbents. But automakers' strong brands and customer trust give them the potential to succeed – if they are ready for change and proactive measures.





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