Revving Up for the Digital Commerce Highway: The Growing Importance of E-Commerce for Auto OEMs

Abstract

Today's digital-first consumers have access to limitless online options in the way they interact with businesses and shops for products and services. Most automotive OEMs (Original Equipment Manufacturer) understand this. They are in the process of adopting digital commerce - a key enabler to expanding their products and services portfolio beyond traditional sales channels - across lifestyle products, auto accessories, spare parts, feature subscriptions, and even cars. What's driving this trend? Digital commerce provides a convenient platform for auto OEMs to gather deep customer insights, build customer relationships via direct engagement, increase brand reach, enhance customer service levels, and create a next-gen digital customer journey.

Embracing digital commerce, however, requires careful consideration - ranging from managing supply chain complexities and existing channel relationships to selecting technology platforms to support modular business growth and replicating B2C like experiences for end customers.

The paper highlights some critical dimensions that automotive companies must consider before they embark on their digital commerce journey. These dimensions include:

- What is the revenue potential in digital commerce?

- What types of business models exist for digital commerce?

- What are some of the major challenges involved in implementing digital commerce?

- What does an 'end-to-end' digital commerce solution look like?

- What is the best approach to successfully implement digital commerce?

Assessing the Revenue Potential in Digital Commerce

While there are various opportunities available to automakers to sell their products and services on digital commerce platform, here are some key avenues:

Merchandise Sales (Lifestyle Products)

Digital commerce contributed $7 million to Ferrari's[1] bottom line in the form of premium fan merchandising, toy market, and luxury (leather) product sales. BMW[2] UK's merchandise site, on the other hand, attracts 100 million visitors a year. It's clear that in addition to the revenue potential, merchandise sites can enhance brand outreach to millions of customers.

To fuel the growth in merchandise business, OEMs should consider adopting a multi-pronged approach encompassing the following elements:

- Gathering customer insights to define user experience, products, and services
- Providing a premium shopping experience online
- Establishing a responsive supply chain as the backbone of their e-commerce initiative.

Accessories and Performance Parts

Accessories and performance parts are meant to protect the features of the car and sustain its longevity. Typically, the accessories business in the car industry contributes 50% to 70% towards profit margins at the POS (Point of Sale). 92% of customers buy the accessories within 90 days of vehicle purchase and their preferred point of contact is OEMs' websites[3]. Interestingly enough, while customers can view model-specific accessories on OEM websites, they cannot buy online as many do not have an eShop to sell the accessories/performance parts. In other words, auto companies are missing an opportunity to monetize online visitors (directly or through dealers) as well as losing them to other e-retailers. Taking a strategic approach can help OEMs attract customers to their online portals and induce them to purchase while increasing traffic at the dealerships, leading to enhanced revenues and profits for both OEM and its dealers.

Service Parts

Research shows that online and mobile sales channels will contribute around 10% (about USD $40 billion) of the overall

sales for automotive parts in North America and Europe by 2020[4]. Independent workshops such as fast fitters and independent repair shops are the actual buyers for this segment, currently untapped and neglected by auto OEMs. Considering the revenue profile and scale of this segment, OEMs can benefit significantly by stepping up their game to attract buyers through digital commerce.

Automotive Service

According to BMW, the launch of the value service page on their e-commerce site providing standard service plans along with the price for specific models resulted in thousands of service enquiries. This, in turn, helped the company increase footfall into BMW dealerships[5]. The top five auto OEMs - GM, Chrysler, Ford, Toyota, and Honda - already sell service contracts directly to end customers. In light of the emerging trends, OEMs must consider selling service plans directly on their e-commerce site and help dealers with assured service revenue. Additionally, enabling a customer self-service portal to manage online service bookings, track customer vehicle history and customer feedback, gather repair center ratings, promote service offers/rebates, and manage a connected community of customers – can add further value.

Connected Car Services

The revenue in the connected car market is expected to grow at 9.4%, resulting in a market volume of USD 48,787 million by 2022[6]. This indicates that subscription-based revenue from vehicles will soon take centre stage for OEMs, shifting the focus from revenues generated from car sales.

Car Sales

The fact is that the auto industry is not yet ready to sell cars directly to end customers due to the complexity of changes it is likely to bring into the traditional business ecosystem. Even from the end customer's standpoint, dealerships will remain relevant to their car purchase journey for crucial activities such as test drives, price negotiation, and physical delivery of the car - at least in the near future.

Until such time as digital commerce becomes the norm for car sales, OEMs could focus on facilitating key components of the vehicle sales customer journey process online. This will not only ensure readiness but also provide direct customer connect – a key missing link for auto OEMs today.

Understanding the Business Models and Key Challenges in Embracing Digital Commerce

Currently, there are four types of business models available for automotive OEMs across different lines of business (LOBs) (see Figure 1).
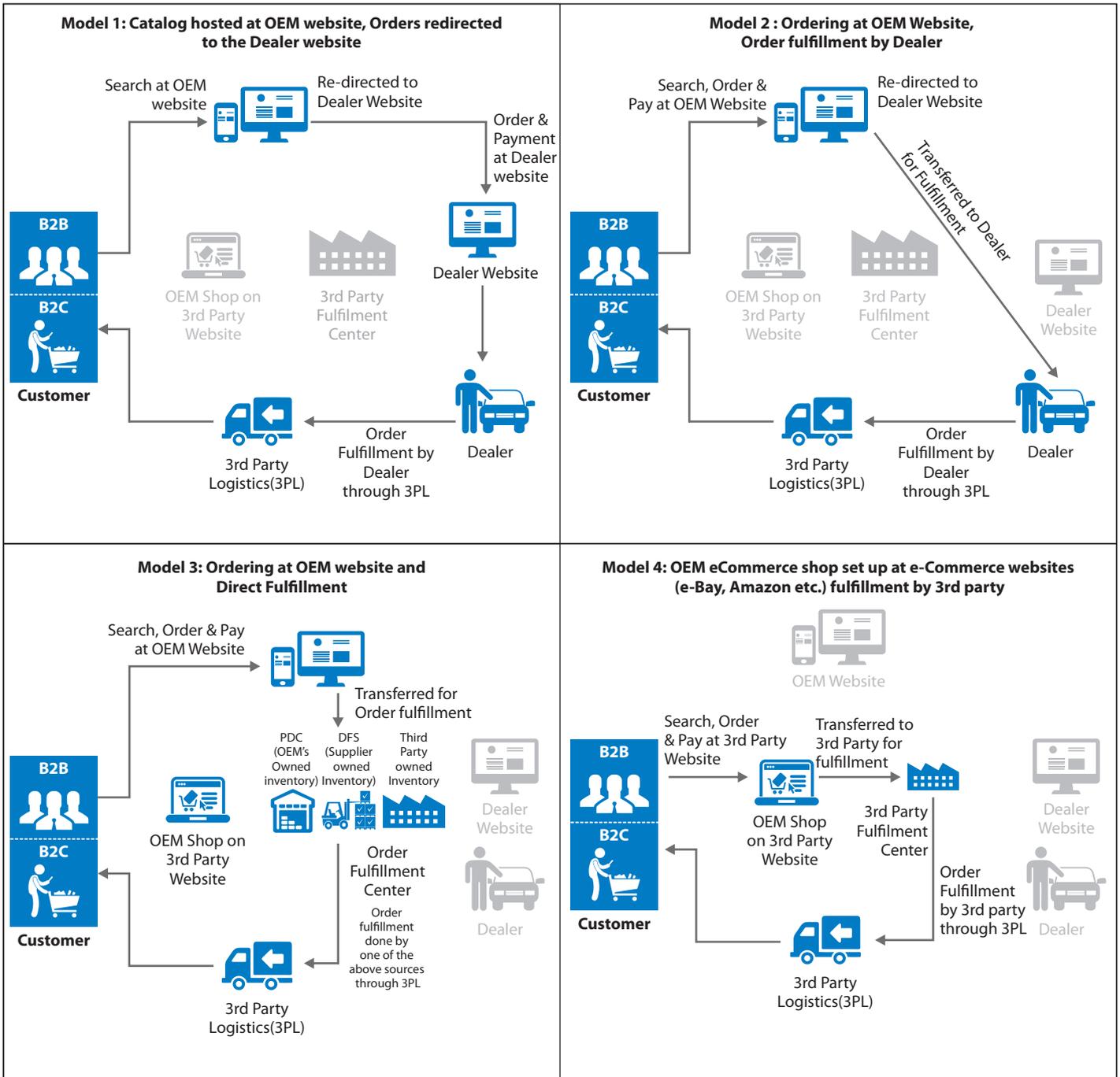

Figure 1: Types of business models available to auto OEMs for digital commerce

Managing automotive digital commerce operations requires careful consideration of business models due to variety of factors that come into play. These include organizational vision, mind set – retail vs wholesale focus, channel relationships, cultural risk, conflict handling appetite, supply chain capabilities, organizational readiness and so on. Clearly, a 'one size fits all' approach cannot be applied, and organizations need to evaluate various options to arrive at an optimal business model.

In addition, adopting e-commerce in the auto industry presents challenges across the organization, including dealerships. To sustain modular and robust growth, OEMs should evaluate and plan services that resonate with their brand image and customer requirements. Ideally, an OEM's digital commerce roadmap must take into account the adoption complexity and challenges involved in introducing each line of business under one e-commerce umbrella (see Figure 2).

Business Models	Technology Platform	Customer Engagement Strategy	Channel Conflict	Fulfilment and return Challenges
■ *Selection of Appropriate business models with respect to potential line of businesses* ■ *B2B (OEM to Dealers)* *B2C (OEM to Consumer)* *B2B2B (OEM to Dealers to Repair shops)* *B2B2C (OEM to Dealer to Consumer)*	■ *Evaluating single ecommerce platform over multi eCommerce product/brand sites"* ■ *Managing complex order management configurations needs BOM integration*	■ *Right blend of digital levers to deliver superior value to the end Customers* Cloud Mobility Social Media Analytics and Big Data	■ *Territory Definition for Dealers and Types of Dealers* ■ *Volume-based pricing, while displaying the MSRP on the general e-commerce section of the website*	■ *Fulfilment by manufacturer vs fulfilment by dealership"* ■ *Regulatory and cross border taxation "*

Figure 2: Key challenges and complexity involved in embracing digital commerce

Selecting an 'End-to-End' Digital Commerce Solution

The technology platform is a critical element in realizing the digital commerce vision. The platform should provide the right mix of technical capabilities to cater to evolving business requirements such as functionality, scalability, integration with internal ERP / legacy systems, integration with third party plug-ins, customization, modularity, and so on. A host of commercial and open source products are available in the market that automakers need to evaluate to arrive at an optimal technology stack.

Figure 3 represents the typical business architecture for an automotive digital commerce solution, comprising five distinct layers – communication, business, process, functional, and integration.
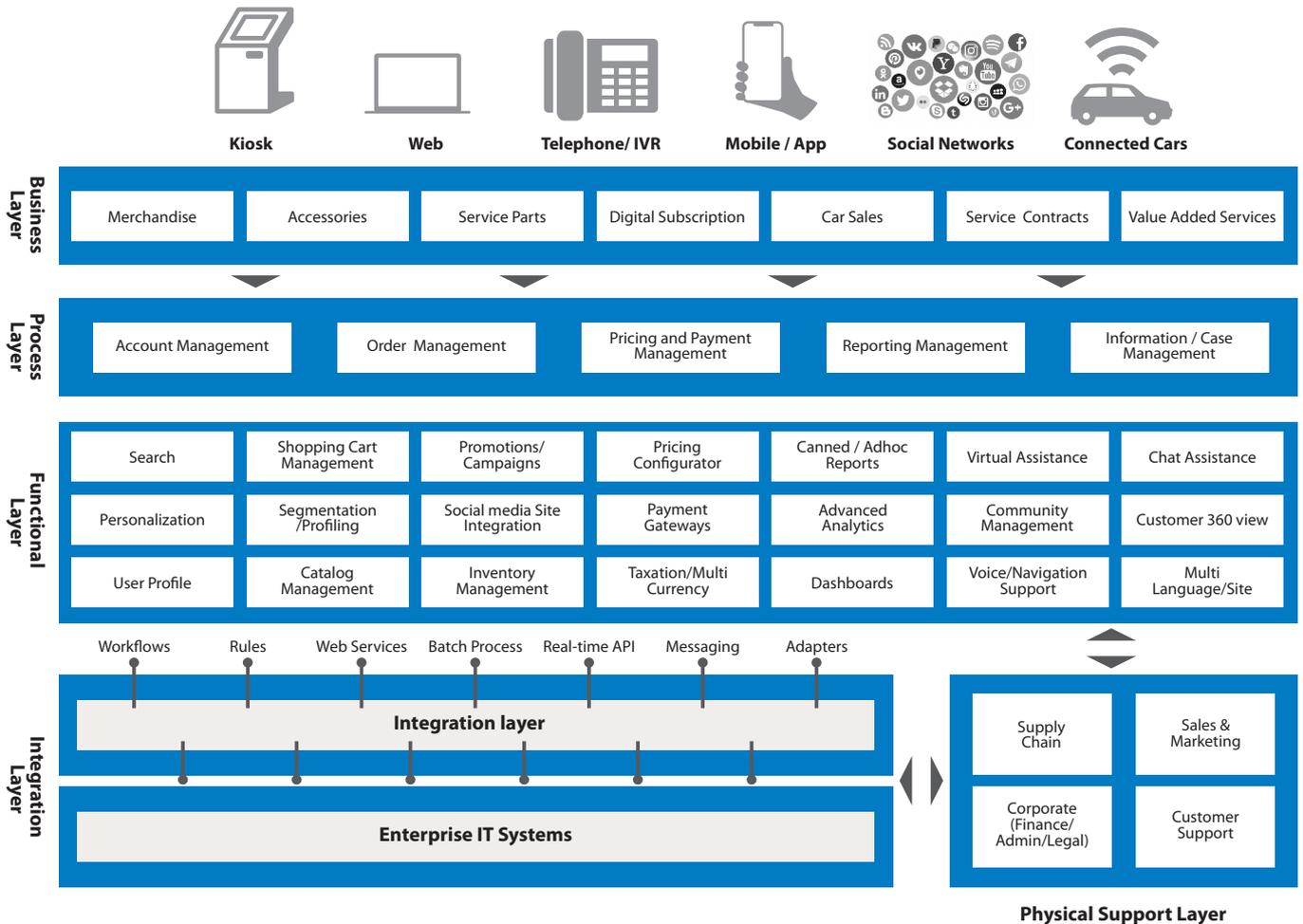

Figure 3: Typical business architecture of an automotive digital commerce solution

Communication and Business Layers:

Customers can use multiple digital channels to shop for products and services across multiple lines of businesses including merchandise, service parts, accessories, service plans, and other value added services.

Process and Functional Layers:

Digital commerce site should offer comprehensive process coverage and 'state of art' functionalities to deliver rich customer experience during purchase lifecycle.

Integration Layer:

Digital commerce site should be tightly integrated with back end enterprise systems to support sales, purchase returns, and customer support activities. The insights generated from digital commerce sites and vice versa can be leveraged by the wider enterprise functions.

Deploying a Modular Approach to Implementing Digital Commerce

Taking a modular approach comprising three phases can help auto OEMs successfully implement digital commerce:

Phase 1: Introduce core digital commerce capabilities in relatively simpler business models such as merchandising for pilot markets. As this phase gains traction in terms of platform stabilization and revenue generation, OEMs should move on to demonstrating the business case for other geographies in the next phase.

Phase 2: Introduce next level of capabilities along with geo expansion across markets. By this time OEMs would have attracted significant traffic on their digital commerce sites to gain valuable customer insights. Integrating the digital commerce site with enterprise resources, including dealership network, can help them provide an omni-channel experience to customers.

Phase 3: Enable analytics-driven campaigns to improve revenue growth along with global expansion of the business. Leverage community management and customer feedback in this stage to plan new offerings and maintain sustainable growth over the long term.

Tapping into New Opportunities for Competitive Edge

In today's highly digitized world, e-commerce platforms help OEMs not only tap into remote markets but also enhance sales efficiencies. While setting up an online platform involves relatively smaller investments as compared to a brick and mortar showroom, successful implementation will depend on certain critical factors. OEMs that take a structured approach by defining a custom roadmap, selecting the right technology platform, and accessing deep implementation expertise will gain competitive advantage through enhanced customer experience and brand loyalty.

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