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PRESS INFORMATION

Oliver Wyman Study on Automotive Sales of the Future

System Profit 2035: Automakers Need to Reinvent Sales System

- **The global automotive sales structure is undergoing radical change.**
- **By 2035, flexible intermodal mobility solutions will account for up to 50 percent of the automotive industry's revenue.**
- **Today's profit drivers, after-sales and financial services, will fade into the background in the long term.**
- **Automotive manufacturers must prepare by investing in their brand systems.**

Munich, September 15, 2015 – **The structure of global automotive sales is about to change drastically. By 2035, the main revenue and profit drivers will shift from traditional sales, after-sales, and financial services to holistic, intermodal mobility solutions. This will mobilize new competitors and put pressure on automakers' traditional business. The dynamics of these changes will become visible in the next few years, even if this fundamental change in the sales structure does not fully take hold until after 2025. Consequently, automotive manufacturers must set the course for future sales by making targeted strategic investments now. Players that hesitate risk losing a large share of their business to competitors such as Google, Uber, and Baido, or intermediaries such as Auxmoney and Beepi, and endangering their current market positions. These are the findings of Oliver Wyman's study, "System Profit 2035: Structural Change in the Automotive Industry".**

In 2014, total global automotive sales revenue came to around EUR3.3 trillion. New and used car sales accounted 76 percent of revenue, at EUR2.5 trillion. However, new and used car sales contributed only 8 percent of total profit. Total profit, at EUR273 billion, was driven by after-sales business and financial services, with EUR217 billion, or 79 percent of the total. System profit is the profit generated by the branded sales and distribution system of manufacturers or independent providers across all automotive sales segments and stages.

The first structural changes in the sales and distribution system will begin to emerge in the next decade, as traditional auto retailers lose ground to online competitors. Multi-channel usage by customers, increasing price transparency, and digitization of the customer interface are paving the way for intermediaries and online retailers to attack the largest traditional sources of profit. In the coming years, automakers and, in particular, retailers will have to find a solution to this problem, especially if digital heavyweights such as Amazon and Alibaba make moves to enter the market, causing business volume to shift away from the traditional retailer.

Thinking outside the box
Along with the battle waged in the sales and distribution arena, the structural change will become noticeable on the revenue and profit side by 2025. Mobility services will become slightly more important and add between 13 and 18 percent to the industry's profit, compared with 12 percent in 2014. After adjusting for inflation, profit from the sale of new and used cars will climb only marginally to account for a mere 4 to 11 percent. After-sales and financial services, with a share of 61 to 71 percent, will continue to be the industry's profit backbone. Although vehicle-related services will generate additional profit of around EUR70 billion, their importance will dwindle slightly because of the growth of mobility services and the unlocking of new revenue and profit sources, in particular advertising income and revenue from the e-commerce and m-commerce business generated by internet-connected cars and the commercial use of big data. By 2025, these new revenue sources will make up between 5 and 20 percent of the system profit, depending on the degree of regulation and the penetration of autonomous driving. Consequently, manufacturers and retailers must start to think outside the box – besides implementing costly measures to defend the margins they optimized over so many years. The changes that will take place by 2025 are only harbingers of the largest structural change in the automotive industry's history.

"The entire automotive sales and distribution system is at stake," said Fabian Brandt, a partner with Oliver Wyman and an after-sales expert. "In the long-run, all of the established profit sources will be redistributed. Automakers must prepare for this development today, if they want to protect their traditional business and, early on, benefit from new revenue and profit sectors."

The progress of digitization in both the automotive industry and the global society, and the establishment of autonomous driving, set the stage for fundamental change. By 2035, mobility-related services and new revenue sources could account for as much as 50 percent of the industry's revenue. It is very likely that vehicle sales, in particular, will suffer. After-sales and financial services, today's profit drivers, will also find themselves in a squeeze. This change will reorganize the entire automotive industry.

A new balance between the car and mobility services
Oliver Wyman's study shows that very diverse, often non-automotive industry companies will attack all aspects of automotive manufacturers' business designs and brand systems. Online giants such as Ebay and Amazon score not only in the highly competitive used car business, but also in the spare parts business. Fintechs such as Auxmoney, Kreditech, LendingClub, and Funding Circle are targeting the financial services sector.

Not even the manufacturers' core competencies, vehicle engineering and vehicle manufacturing, are safe anymore. Tesla is the best example. The new market entrant launched an almost unrivaled electric car in record time. The top smartphone player, Apple, is busy developing its electric iCar. And Google, one of the leading online companies, has been testing self-driving car prototypes on public streets for some time now. Moreover, the company has changed its corporate structure and name to avoid putting its core business at risk by pursuing this venture. By now, car sharing and ride sharing have become an everyday phenomenon in many large cities, and Uber has revolutionized the global chauffeur services market. Although automakers are also active in the market with their own services, they need to deal with new competitors and different dynamics than in their traditional business.

Focus is shifting to the overall mobility system
After 2025, the car itself will fade into the background, especially in the volume segment. Feasible scenarios for 2035 show certain cities greatly restricting private transport with autonomous electric vehicles providing transportation services instead. As a result, both utilization and efficiency of vehicles would increase substantially, and car ownership would decline significantly. Moreover, this scenario would have a major impact on city development. The commercial parking industry, for example, would have to tackle major challenges.

In the future, the customers' purchasing decisions will no longer be the primary influence on the automotive manufacturers' business, but their mobility needs, getting from A to B at a low cost. Consequently, mobility-based solutions that include not only vehicles, but also a broad range of alternative means of transport, will set the pace in automotive sales in the long term. More and more start-ups and established companies from other industries will penetrate the automotive market and use their strengths to launch attacks on the industry's revenue sources.

"Many business designs will no longer focus on the vehicle. Instead, the vehicle will merely be a means to an end," said Marcel Springer, automotive expert at Oliver Wyman. "For example, mobility providers focus on providing convenient, easy-to-use internet access in the vehicle to enable commercial activity. In the short term, services such as parking space booking will take center stage. The long-term goal, however, is to bring the entire e-commerce and m-commerce business volume to the car trip."

Integrated solutions are in demand
To be successful in this game, manufacturers must redefine their branded sales and distribution systems and strategically invest in this effort. In the future, it will no longer suffice to concentrate on vehicle sales, after-sales, and financial services. Comprehensive integrated solutions that meet all of the customers' diverse mobility needs are necessary. This entails investment, a stronger risk appetite, and lower expectations for the traditional return on investment. At the same time, this trend requires new business designs, such as direct sales or special usage and fee models. As online giants and Silicon Valley start-ups move in, it is essential for car manufacturers to find ways to stay competitive. It is also essential to embrace digitization to quickly develop and test new business designs in incubators. Traditional automotive manufacturers must also consider targeted strategic partnerships. And, finally, it is important to protect the customer interface. This means automakers must exploit all aspects of the customer relationship, systematically evaluate existing data, and provide solutions combining all of the companies' mobility-related business areas.

Established automotive manufacturers still hold all the cards. Customers still associate mobility with the major automakers rather than Google and Apple. With their partners, automakers control many elements of the customer touch points. In addition, in many countries, they have already become active in the solutions business by providing after-sales services, financial services, and promising mobility offerings.

"Thus, traditional automakers have a foot in the door, and will play a very prominent role in the entire mobility system of the future. It is now up to them to push open this door. Only companies that act with conviction and a clearly defined goal in mind will be among the winners," said Matthias Bentenrieder, a partner with Oliver Wyman and an expert on mobility services.

Steps for successful future automotive sales

1. Improve operational excellence in the short term by cutting costs and boosting margin to create space for investments. Big-data solutions and rigorous data usage help to make today's businesses smarter and more profitable.

2. Enhance business designs to meet customer mobility needs. Protect the customer interface in the long term by approaching the client directly and adopting special usage and fee models.

3. Enter more diverse partnerships and take more risks to remain relevant beyond 2035 with attractive offerings.

4. Digitize both the company and its culture in order to keep up with the pace of online giants and Silicon Valley start-ups.

5. Develop long-term scenarios for the upcoming structural change to mitigate the impact with decisive action early on.

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